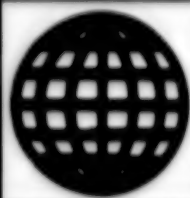


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JPRS Report

China

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Understanding Realities in Capitalist World

92CM0023A Beijing DAXUESHENG [UNIVERSITY STUDENTS] in Chinese No 9, 10 Sep 91 pp 8-11

[Article by Yu Xinyan (0151 1800 6056), pen name of Xu Weichen, deputy director of the CPC Propaganda Department: "Understanding the Realities of the Capitalist World"; first paragraph is DAXUESHENG editor's note]

[Text] In response to reader's requests, we are starting a column in this issue of UNIVERSITY STUDENTS entitled "A Window On World Affairs," in which we will introduce in various ways many realities of the Western world. We would like to thank Comrade Yu Xinyan for taking time from his busy work schedule to write the article entitled "Understanding the Realities of the Capitalist World" for this publication. We hope to cultivate even more authors in this column.

Since the political disturbances in the late spring and early summer of 1989, we have successfully enhanced the indoctrination of our college students in China's realities and social practices.

Most of our young college students today have acquired a very poor understanding of China's basic realities in the course of their education, all the way from their family doorsteps, to grade school, through high school, and then on to college. They lack a profound understanding of why we Chinese people have firmly chosen the socialist road, put ourselves under the leadership of the CPC, reformed and opened up to the outside world, and built up our own homeland. We educators, not the college students, are responsible for this. Therefore, Comrade Deng Xiaoping has pointed out that our greatest mistakes in recent years have been in the field of education. These educational mistakes refer mainly to ones in the area of ideological and political indoctrination.

Having experienced those disturbances, our whole party has sobered up and enhanced our work in this area. During every summer and winter vacation since then, we have been sending our college students deep into the social realities of life, by putting them in contact with grass-roots cadres, workers, peasants, engineers, technicians, and people from all walks of life, so that they can make practical investigations and acquire personal experience, which has changed their political awareness. Most of them have acquired a real awareness that socialism is advancing vigorously throughout China, and have gained confidence that China is becoming rich, strong, and prosperous under the leadership of the Communist Party.

While it must be acknowledged that this change that has occurred on the ideological and political front in our institutions of higher learning is encouraging and profound, and should be followed up persistently in the future, it still needs to be accompanied by helping our college students to understand the realities of the Western capitalist world, or world affairs. Such help is essential because socialism and capitalism are the two

major systems in today's world. We need to understand not only socialist realities, but also capitalist ones. Only by understanding both socialism and capitalism can we be considered to have a fairly complete understanding of our world.

In our dozen years of reform and opening up to the outside world, China has moved toward the world, while the world has also moved toward China. Chinese people have travelled to many Western countries under a variety of auspices, and have seen and heard many things with their own eyes and ears. Western scholars, reporters, industrialists, and tourists, as well as their newspapers, periodicals, and books, have revealed to us Chinese a variety of Western phenomena, such as their highly developed science and technology, busy downtown streets, prosperous lives, and lifestyles and values of every description. While it must be acknowledged that they have many things—such as their advanced science and technology and management expertise—of which we can make use and from which we can learn, we absolutely must not copy indiscriminately the capitalist system of exploitation or its decadent lifestyles. We must not stop at a superficial understanding of the capitalist world, but must better understand its substance, its internal conflicts and development patterns, and whether it is actually ascending or on the decline. In short, acquiring a genuine understanding of capitalism, particularly today's capitalism, has become a key task on our ideological front.

Certain Westerners like to emphasize human rights. While they often use support for human rights as a pretext with which to peddle their values and interfere in other countries' internal affairs, what is their own domestic human rights record? They cannot hoodwink us on this. As for the United States, its domestic human rights record is very bad, and deep-seated racial discrimination still exists. While the United States has been independent for over 200 years, the right of U.S. women to vote in elections was not legally recognized until the 1920s.

While it was hostile foreign and domestic forces that incited and created the disturbances in China in the late spring and early summer of 1989, some people exploited the opportunity to launch an all-out attack against China's so-called trampling upon human rights. On "Halloween" in 1989, tragedies occurred on U.S. streets, such as homeless people getting chopped up with meat cleavers, and even getting drenched with nitric acid and burned up. While detailed reports of such extremely cruel and absolutely inhuman acts of barbarity were seen in the newspapers, they of course were mentioned only casually, and certainly did not arouse any "great uproar." It is obvious that they in fact certainly do not truly apply a single standard for human rights.

While the U.S. Declaration of Independence drafted by Thomas Jefferson on 4 July 1776 declared that "all men

are created equal and endowed by their creator with the inalienable rights of life, liberty, and the pursuit of happiness," what is the true state of affairs there? Reynolds Reisman, a U.S. sociologist, has exposed the real living conditions of Afro-Americans as follows: "Being black in America means inheriting the same unequal treatment suffered by one's ancestors in all areas of life. Living conditions in America for Mexicans, Puerto Ricans, and American Indians are about the same as those for blacks." The earliest ancestors of today's Afro-Americans were sold and brought to North America in chains from Africa in 1619. For decades from that time on, roughly 400,000 blacks were shipped to America as slaves, to live extremely tragic and miserable inhuman lives generation after generation. Blacks account for about 70 percent of the homeless people in the U.S.

Statistics for 1983 show that there were 28.2 million Afro-Americans, who made up 12 percent of the U.S. population and were America's largest minority nationality. While repeated struggles have been launched by blacks for their deserved "human rights," they have usually been put down brutally by police and soldiers. In the nationwide campaign to put down the riots caused by the assassination of Martin Luther King in April 1964 alone, the U.S. Government called out over 68,000 regular-army riot-suppression troops, who killed or injured 3,500 and arrested 20,000 blacks. While Afro-Americans have improved their conditions somewhat through unremitting struggle and great pressure from international public opinion, they are still unequal in comparison to whites. They suffer more unemployment and have less job opportunities. In 1983, while one-twelfth of whites were unemployed, as many as one-fifth of blacks were without jobs.

In the U.S., a rape occurs every six minutes, which is only the number of cases reported to judicial organs. A U.S. sample survey shows that two-thirds of rapes go unreported.

As to human rights problems in Western countries, there are yet other strange cases that give food for thought. For instance, an old man in France had no one to take care of him in his old age. As he was so alone, he had two dogs who kept him company all day long. When his neighbors suddenly realized that they had not seen him for some time, they broke into his house, only to discover that he had been almost eaten up by the dogs. While the neighbors were very angry and wanted to beat these man-eating dogs, the police refused to allow it and took them to be cared for at an animal protection center. That is not the whole extent of such cases of human rights being subordinate to canine rights. A Chinese reporter also encountered a similar case in Greece. He knew an old couple whose dog assaulted its master one day. When the old fellow called for help, while the neighbors rushed in, chased off the dog, and saved the old fellow from harm, they refused to let him beat his dog, and had it taken to an animal protection center for protection. Of course, in Western journalism, a dog biting a human being is not considered to be news.

Some of our young people, who are envious of the so-called "freedom to choose one's job" in Western countries, mistakenly think that one can do whatever he pleases and get whatever job he wants there. Little do they know that there are actually many young people there who cannot find even a job with which they would be very unhappy. For instance, the 1987 unemployment rate was 10.6 percent in the United States, 10.4 percent in France, 12 percent in Italy, and 8.9 percent in West Germany. How much freedom to choose one's job, and especially an ideal one, is actually enjoyed by a young college graduate who has just entered society and been thrown into such a great army of the unemployed? Nor should it be thought that all young people in capitalist countries are so happy about their "freedom of movement." They are even more anxious about their boss's "freedom to fire them," losing their ricebowls if they lose their jobs, and getting a taste of hardship.

While some of our young people think that capitalism would automatically bring them the living standards of developed capitalist countries, there are actually both rich and poor capitalist countries, and more poor than rich ones. While per capita GNP is high in some countries, since as much as \$50,000 to \$100,000 per worker is invested in fixed assets in the United States, they actually do not create so much output value or produce such high profits. For instance, can the average worker produce \$10,000 in profits from \$1,000 in fixed assets? This is impossible as far as the whole country is concerned. It is estimated that the average investment in fixed assets per worker among Chinese workers, including the 230 million in township enterprises, is 10,000 yuan, which is 30 times less than \$50,000. This is not a problem that can be solved by a change of system. Western bourgeois economists estimate that German reunification will cost an investment in fixed assets of at least 200 billion marks to raise the living standards of the 17 million former East Germans to those of West Germany. Without these funds, the economy and living standards could only decline in former East Germany. While it is estimated that more than 100 billion marks have already been invested there, there is still no sign that this has been effective; instead, it has caused inflation in West Germany.

Where did this enormous amount of fixed assets in developed Western countries come from? It came primarily from savage plundering during the primitive accumulation stage of capitalism. They are still continuing to exploit its political, economic, and technical advantages to carry out exchange at unequal value with developing countries. While they are now acquiring about \$100 billion a year in this way, economies are continuing to deteriorate and living standards are continuing to decline in many developing countries. While there are of course many reasons for the frequent disasters and thousands upon thousands of deaths due to starvation in Africa in recent years, these things are very closely tied to exploitation and plundering by developed Western countries.

When observing these phenomena in capitalist society, it is necessary to interpret people's actions from the perspective of the laws of capital operations. Capitalists are the personification of capital, and bourgeois politicians are representatives of capital personified. They all act in accordance with the demands of capital.

There have been varying views of and discussions about the Gulf war in both the international and domestic arenas. Some critics point out that the United States fought this war mainly against Japan and Germany. While Iraq's invasion of Kuwait was certainly an act of regional supremacy, which needed to be condemned and stopped, the United States certainly had another strategic aim in sending out so many troops to deal with a country of only 17 million people. This was not simply the U.S. need for oil, because the United States relies on the Middle East for only 15 percent of its oil. While Japan relies on the Middle East for 70 percent of its oil supply, and Germany imports 40 percent of its oil from the Middle East, it was not Japan and Germany who sent the troops. That it was the United States who took the lead in sending an expeditionary force of hundreds of thousands of troops across the ocean, is well worth pondering.

The Americans say that they fought this war to establish a new world order. While the previous world order was mainly a struggle for supremacy between the Soviet Union and the United States, as the Soviet Union has now been strikingly weakened, the remaining major potential challengers to U.S. world supremacy are Germany and Japan. Japan has already repeatedly made clear its unwillingness to remain an economic superpower alone, and its intention to become a political superpower as well. After the Second World War, the U.S. dollar became almost the strongest hard currency in the world, and functioned as an international currency. This was equivalent to U.S. banks issuing hundreds of billions of dollars worth of notes, and then not having to honor them for a considerable period of time. Although this concealed U.S. inflation and maintained an appearance of prosperity, the standing of the U.S. dollar has begun to be shaken in the last dozen years or so, while the mark and the yen have become increasingly stronger. If Germany and Japan continue to grow stronger to the point where they are a match for the U.S., people are likely to turn to saving yen and marks, large amounts of U.S. dollars will flow back to the United States, and there is a possibility that the U.S. economy and society will collapse into crisis. This is a major issue that will affect the continued existence of the United States. As this threat seems to be even more imminent than the West's so-called "communist threat," U.S. strategy cannot allow Germany and Japan to grow too strong. The United States used to use the dual tactics of maintaining its military bases and stationing its armed forces

in countries, such as Germany and Japan, while joining with the Paris Unified Planning Council to formulate a series of provisions to embargo high-tech exports. While its pretext for these dual tactics used to be to counter the Soviet Union, things have changed so that this pretext has gradually become no longer tenable. Moreover, once they are no longer bound by these two ties, Germany and Japan are likely to develop even faster. While the United States is naturally unhappy about such prospects, Germany and Japan also have a weakness, i.e., their energy shortage. As the Germans and Japanese naturally understand that the United States can strangle them by occupying the Middle East, the Japanese are taking the countermeasure of quietly speeding up their construction of nuclear power plants.

Of course, the United States also had an immediate aim in fighting the Gulf war. One journalist reported that President Bush had responded impatiently to close questioning by a reporter that this was an issue that concerned American jobs. This gives much food for thought. While some people think that the Gulf war caused the U.S. economic recession, this is actually not true. As the U.S. economy was in recession long before the Gulf war, the U.S. Government actually tried to exploit this war to ease its economic depression. By fighting this war, the United States brought out and disposed of munitions that had been overstocked in its warehouses for decades, which put its arms industry back to work, gave capitalists new orders for goods so that they could pay wages, gave employees work to do, and reduced unemployment. According to a report in USA TODAY on 17 January 1991, "73 U.S. companies signed contracts worth 1.5 billion with the U.S. Government to make 'Desert Shield' necessities, such as special medicines, food, and clothing." A Pennsylvania company, whose orders had dropped from \$1 million to \$225,000 a year before "Desert Shield," now has a good chance to make a fortune. An article in the British FINANCIAL TIMES on 21 January 1991 reported that nonmilitary personnel in the British Ministry of Defense and companies that manufactured articles for military use had cancelled weekend days off, and were working 24 hours a day to supply urgent Gulf war needs. It said that "this had eliminated in one stroke the slump that the national defense industry was suffering from due to economic decline before the Gulf war." Germany, Japan, and the Arab countries paid tens of billions of dollars for this. As it was thought that the United States had made money off of this war, Germany demanded that the United States publicize its Gulf war accounts after the war, which it has refused to do.

These are merely a few convenient examples. In short, helping our college students to understand the truth about Western society and the capitalist world is a key task on our ideological and theoretical fronts. As long as we do this job well in a down-to-earth manner, we will certainly be able to see clear results before long.

NATIONAL AFFAIRS, POLICY

Capital Investment Exceeds Plan by 15 Billion Yuan92CE0207B Wuhan JINGJI XINXI BAO in Chinese
4 Nov 91 p 1

[Article by Wei Jing (7279 2533): "Fixed Assets Investment Will Exceed Plans by 15 Billion Yuan"]

[Text] According to forecasts of the Fixed Assets Investment Statistical Office of the State Statistical Bureau, this year China's annual fixed assets investment across society may reach 515 billion yuan, an increase of approximately 15.7 percent over last year, exceeding plans by about 15 billion yuan.

In the first three quarters of this year, immediate investment showed a steady growth compared to the same period last year; growth in replacement and transformation investment has increased quarterly; there have been improvements in the capital payment situation; the rate of growth of investment in the central and western regions is faster than in the eastern regions; and macro-economic investment results have improved.

This year, the state continued to adopt a policy inclined towards key sectors so that the investment structure was further adjusted: The proportion of investment in transportation, the post and telephone communication industries, and raw materials industries increased; the proportion of investment for intensive construction increased; and the rate of key project construction was quicker.

According to analyses, the above situation indicates that the state's policy of defining macroeconomic adjustment and control of fixed assets investment and construction is correct. But, annually there is still some construction capital that cannot yet be put to use and there is too much of an increase in new construction projects.

According to estimates, in the fourth quarter of this year, fixed assets investment will continue to grow. While continuing to control new construction projects strictly, regions and departments should place their work emphasis on improving investment returns. According to incomplete statistics, by the end of September, very few of the 80 large- and medium-sized capital construction projects and 98 above norm replacement and transformation projects that the plan demanded go into production had gone into production. Thus, we should concentrate our efforts on using limited finances and material primarily for key state projects and projects planned to go into production.

Article Urges 'Vigorously' Promoting Price ReformHK2512103591 Beijing JINGJI GUANLI in Chinese
No 9, 5 Sep 91 pp 18-21, 64

[Article by Luo Jingfen (5012 4737 1164), edited by Lu Xiaosheng (4151 1420 3934): "Promote Price Reform Vigorously, Prudently"]

[Text] As market prices went up by a substantial margin a few years ago, it was difficult for price reform measures to be introduced. Some people then started having doubts about the importance and urgency of the need for price reform and tried to avoid price reform and open a new path. As a matter of fact, proceeding from the requirement for deepening reform, for accelerating market growth and perfection, and for building an economic operation mechanism in which planned economy and market regulation are combined, it is necessary to promote price reform vigorously and prudently.

I. Current Situation of Commodity Prices

After more than 10 years of reform, quite enormous changes have taken place in China's price management system. The previous situation of overcentralization and excessive control has changed, and the percentage of products whose prices are set by the state has decreased sharply, resulting in a situation in which numerous price forms, such as prices set by the state, prices guided by the state, and prices set by the market coexist. From 1978 to 1988, of the total amount of farm products marketed by the peasants, the proportion of prices set by the state went down from 92 percent to 24 percent; of the total amount of retail sales of consumer goods, the proportion of prices set by the state went down from 97 percent to 31 percent; and regarding ex-factory prices of the means of production, the proportion of prices set by the state went down from nearly 100 percent to about 65 percent. Now, there are market prices for the great majority of products.

In 1990, changes in the total price level tended to be steady; there were rises and falls in commodity prices; and the trend of rising prices is obviously over. The price changes in various kinds of commodities in 1990 showed the following characteristics:

1. Food prices remained stable, and prices of industrial products went up to some extent. Retail prices of food remained basically stable, and there was a wide range of decreases in the retail prices of some major foods, which had not been seen for many years. Prices of grain, vegetables, meat, poultry, eggs and aquatic products went down by even bigger margins. Retail prices of food throughout the year were up by 0.3 percent compared with 1989, a very small margin of increase, affecting the rise in the general retail price level by only 0.1 percent. There were increases and decreases in prices of industrial consumer goods. Prices of clothing and daily necessities went up, while those of daily-use mechanical and electrical consumer goods and of cultural and recreational

articles went down. Retail prices of five kinds of commodities, namely clothing, daily necessities, newspapers and magazines, medicine and medical instruments, and fuel, increased by from 1.9 percent to 8.2 percent, affecting the rise in the general retail price level by 1.5 percent, which was a major factor affecting the rise in market retail prices for the whole year.

2. The margin of increase in retail prices was smaller in cities and towns than in rural areas. In 1990, the overall retail price level in rural areas went up by 3.2 percent, three percentage points more than in cities and towns. The main reasons for a larger increase in the price level in rural areas were: First, the effect of price increases—retail prices of industrial consumer goods in rural areas went up by 4.5 percent, a larger margin of increase than in cities; second, there were basically no subsidies for price increases in nonstaple food and daily necessities; and third, after the state raised the prices of chemical fertilizers and other products, the prices of the means of agricultural production still presented quite a high rising trend, 5.5 percent higher than in 1989, affecting the rise in general retail price level in rural areas by 1.2 percent.

3. Retail prices in country fair trade were down and those in state commerce were up; prices of products outside the plan went down and those inside the plan went up. In 1990, retail prices of consumer goods in urban fairs all over China decreased by 4.9 percent, while those in state commerce increased by 2.6 percent. In market fairs, apart from a small number of consumer goods, such as sundry goods for daily use, cotton, tobacco, and hemp, which registered an increase in retail prices, those of grain, vegetables, meat, poultry and eggs went down by a big margin. That was because the price level of country fair trade was mainly dominated by the relation of supply and demand, and the previous energy for price increases had all been released. The prices of products inside the plan and of the great majority of products handled by state commerce were set or guided by the state. Pushed by increased production costs and the inability to greatly increase financial subsidies, the retail prices therefore went up slightly.

II. Major Issues Faced by Price Reform

1. The threat of inflation is far from being removed, and the factors for potential price increases still exist. The contradiction of aggregate demand being larger than aggregate supply—which had accumulated for many years—was relieved to some extent in 1989, but the problem has not been fundamentally solved. According to calculations by the concerned departments, the rate of difference between supply and demand was 7.7 percent in 1988 and 4.2 percent in 1990. There is still far too much currency circulating in the market. The currency issued in excess of the economy's needs since the fourth quarter of 1984 has not been completely absorbed, and there was a sharp increase in bank loans in 1990, with various kinds of newly increased loans going up by 22 percent compared with the previous year. This will inevitably lead to a large supply of currency for some

time to come. The state's financial deficit in 1989 and 1990 both went beyond the provisions of the respective plans. By the end of 1990, the surplus purchasing power of the entire society was more than double the total volume of commodity retail sales during the whole year of 1990. A large portion of residents' savings has been set aside for "postponed consumption," and this is a hidden problem affecting market stability.

2. The contradiction between price structure and industrial policies stands out sharply. The prices of commodities produced by sectors which the state urgently needs to strengthen and develop are on the low side. To accelerate development in these sectors, we must raise the prices of these commodities.

China's energy prices are also low, especially those of coal. Compared with 1953, the production cost of raw coal produced by coal mines whose products are solely distributed by the state went up by 3.5 times in 1989, yet the price of raw coal increased by only 53 percent. The margin of price increase was lower than that of increased production cost; without compensations in production expenses, the enterprises have suffered losses for a long period of time. Its consequence will seriously affect the future development of the enterprises, and was unfavorable to the economical use of energy.

As the petroleum industry has not put any new wells into operation for many years, the production cost of oil exploitation has risen by a large margin, and the whole industry suffered losses in 1989.

Regarding the price of timber: First, the basis for calculating prices is irrational, and the production cost of timber is not calculated comprehensively because only the cost of mining and transportation is calculated and the cost of forest operation is not included. Second, the planned price level of north China timber is on the low side. As a result, many state-owned enterprises of forest industry have suffered losses in operation, and the rate of fulfilling contracts for timber under unified central planning has dropped.

Regarding the prices of agricultural products: First, the prices of agricultural products purchased by the state are low, and there is too big a difference between listed and market prices, especially when the prices of grain purchased by the state are compared with farm products prices, which have been set free. The gap between comparative benefits is too big, and the comparative benefits for grain continued to decline in 1990. Second, the purchasing prices of some major farm and sideline products exceed the marketing prices, and the financial burden becomes ever heavier.

3. Price subsidies have become heavy burdens for state finance and have reached the point where it is difficult to continue any further. Over the past few years, state finance has continued to increase its subsidies maintaining low commodity prices in order to stabilize the retail prices of several commodities and to ensure the quality of the peoples' lives. Compared with 1978, the

price subsidies in 1989 increased by nearly three times, an average annual progressive increase of 13.3 percent, far exceeding the rate of increase of 9.1 percent in total financial revenue of the corresponding period. As a rather large portion of financial revenue—which was originally a small amount—has been used on price subsidies, the input of funds required for expanded production has reduced correspondingly. With the arrival of the peak year for repayment of principal and interests for both internal and external debts, the state finance will face even greater difficulties and, with the continued increase in price subsidies, it will be too heavy a burden for state finance to bear.

4. The price mechanism is imperfect, the price order is chaotic, and the defects inherent in the double track system for determining means of production prices have become even more serious. The "double-track system" for determining means of production prices seriously runs counter to the general price formation principle, goes against the equal exchange principle, harms the singularity of price scale and the unity of the commodity market, and has resulted in differences in the real purchasing power of the same amount of currency in two markets. Furthermore, the circulation of heavy industrial products has a different character than that of agricultural products, because it is easy for multichannels and multilinks to appear in the circulation of heavy industrial products, and therefore the system itself has defects which cannot be overcome. This has several effects: First, it has an impact on existing plans. Enterprises and leading departments try to do all they can to reach the state's planned target, expand production beyond the plan's provisions, and sell the products. The result is that the materials earmarked for unified distribution in the state plan are used up—or the enterprise considers materials that are supposed to be inside the plan as materials outside the plan and sells them. With large quantities of resources inside the plan flowing into the market, the implementation of the state plans is affected and the rate of fulfilling contracts for materials supplied by the state drops, making it impossible for major goods and materials needed for the state's key construction projects as well as departments for major development to receive timely and adequate supply. Second, it brings about uneven suffering and happiness among the enterprises. Because of the different purchase prices of raw materials and fuels, it is impossible to compare cost levels at different times or among enterprises of the same trade; and because of the different price makeup of the products sold, it is also impossible to compare profit levels at different times or among enterprises of the same trade. Therefore, it fundamentally undermines economic accounting and harms the basis of fair competition between enterprises on the market, and the evaluation and assessment of enterprise efficiency lacks a just, unified scale. Third, it undermines the normal order of the market. Differences in price have led to speculation among the middlemen, have aggravated confusion of the circulation system, have become the soil

for rampant speculation and the bed for generating corruption, and have encouraged unfair distribution.

III. Major Experiences and Lessons in Price Reform

1. To ensure the smooth progress of price reform, we must maintain basic balance in macroeconomic environment and must maintain the basic stability of the general price level. China's processing industries still have a rather weak digestion and absorption capacity, and the rising price of raw materials and energy supplies often leads to an overall increase in production cost and hence higher prices. As China's purchasing power is too exuberant, it is extremely easy to give rise to an increase in the general price level in price restructuring. Given an overheated economy and inflation, such a contradiction is more profoundly expressed. To control the extent of price increase within the scope allowed, it is necessary to inhibit the over-expansion of aggregate demand and create a relatively relaxed macroeconomic environment throughout the price restructuring process. Several years ago, under the situation of serious inflation, a reasonable increase in the prices of basic products was soon offset by the excessive increase in the prices of processed products, yet the old price relations was retained, or even deteriorated. Although price reform was "seemingly successful," the general price level reached a new stage. From 1979 to 1984, the accumulated increase in the general price level was 17.7 percent, an average annual progressive increase of 2.8 percent. The general prices level did not rise very much, but many problems were solved. The important reason for this was that there was no serious inflation. From 1985 to 1989, however, the accumulated increase in the general price level was 72.7 percent, an average annual progressive increase of 11.6 percent. The general price level increased by an excessive amount, yet very few problems were solved. This happened primarily due to the aggravated imbalance in total supply and demand, and there was obvious inflation. This was once again proved in 1990 when the general price level did not increase very much, and many problems were solved.

2. One should not be superstitious about the market, nor should one believe that a standardized market will take shape once price controls have been relaxed. One view maintains that, as long as the government relaxes direct controls over prices, the market will automatically take shape, the price system will tend to rationalize rather rapidly in market competition, and the law of value will be able to give scope to its role, provide enterprises with correct price signals, and achieve avoidance of enterprises by the market. That is over-simplification and idealization of price control relaxation and market formation. The establishment, cultivation, and perfection of effective and standardized markets take quite a long time. In implementing reform in many localities in China, we have seen that orderly, competitive markets have not taken root where price controls are relaxed; nor has the intention of straightening out the price system been realized. Under these circumstances—where an effective

market mechanism and enterprise mechanism are lacking—premature and excessive relaxation of price controls will have disastrous consequences.

It should also be pointed out that the ability of market prices to accelerate the growth of production not only depends on the price level but also on the condition of resources, the mobility of the factors of production, and the technological level of production. Relaxing price controls over some kinds of products may not necessarily increase supply. It is still necessary for the state to carry out certain intervention and take some administrative measures over prices. At the present stage, it is rather appropriate to build gradually organized markets, with the state taking part in their management, and carry out many forms of price control, such as prices set by the state, prices guided by the state, and prices regulated by markets.

3. Only when price reform is carried out in coordination with other measures of reform can overall efficiency be achieved. One should not believe that, as long as price relations are straightened out, all problems in the economy will be readily solved. Practice has proved that price reform and other fields of reform are influencing and conditioning one another. To achieve proper results in price reform, it is necessary to coordinate, in terms of policies, measures, and steps, with macroeconomic regulation and control means, with financial and monetary policies, and with the reforms in wage system, enterprise mechanism, and market management. Price reform and market growth should proceed at the same time. Without price reform, it is impossible for the market to grow and be perfected; without sound markets, it is also very difficult to advance price reform. To push forward reform in the wage system, readjust policies of income distribution, build up and amplify a compensation system for staff and workers after price increases and a protection policy for low income earners, and in particular speed up the establishment of a social security system—these are all conducive to continued maintenance of social stability after price reform. In short, it is impossible for price reform to achieve success if it is carried out in an isolated way; only when it is implemented in coordination with other reform measures can price reform achieve overall efficiency.

4. Price reform is a long-term and difficult task. For many years in the past, people have always tried to take several big steps forward to complete price reform in three to five years. In practice, it has been realized that the assumption that "a short pain is better than a long one" is impractical. Price reform is conditioned by many circumstances and has a progressive nature. The straightening out of prices will run through the whole process of economic restructuring, and therefore the goal of reform should not be set too high. To completely change the irrational price system, it is necessary to formulate carefully an appropriate and feasible short-term plan as well as intermediate and long-term plans that have clear-cut objectives, outline the appropriate steps, and in which where everything is coordinated. In

selecting price readjusting and relaxation of price controls, one should not proceed from a fixed mold or from subjective wishes, and it is especially inappropriate to continuously put forth requirements for relaxing price controls in disregard of the objective conditions; one should proceed from a practical situation and results, readjusting prices or relaxing price controls according to concrete conditions, with differentiation, step by step, with preparation, and in a planned way.

5. We should take a prudent attitude in linking domestic prices with world prices. Under the traditional price system, domestic prices and world market prices come under two price systems, and are under strict separate control. The advantage of such a method is to avoid unfavorable impacts on the domestic economy by the fluctuation of world market prices and to ensure the stability and independence of the price system and currency circulation at home. The shortcoming is that those enterprises which have export tasks are concerned about neither the competitive power of their products on the international market nor the improvement of economic efficiency of their export products; those enterprises which use import raw materials, units and parts are not concerned about the changes in world market prices, and attach no importance to using home products, which often result in increasing burden of financial subsidies. Linking domestic prices with world market prices is conducive to heightening the competitive power of China's products on the world market, expanding economic relations with foreign countries, and speeding up technological progress—but such changes will also bring about many new contradictions. The prices of import products calculated using the current exchange rate are in most cases higher than domestic prices, and this will obviously push up domestic prices. After the foreign trade agent system in export changes, the responsibility for export profits or losses are shifted from foreign trade corporations to enterprises, resulting in tremendous changes in the enterprises' profits and losses. For the great majority of enterprises presently in China, it will take some time for their export products to pass or even catch up with the world's advanced level in terms of production cost, quality and performance, time of delivery, post-sale service and economic efficiency. Efforts to set domestic prices for import products according to the world market price level in a bid to promote their rational utilization are also limited by production techniques and the quality of the management in Chinese enterprises. Therefore, there should be some kind of selection regarding which commodities' domestic prices can get close to world market prices. Whether or not the popularization of the export agent system is linked with international prices should mainly be determined by whether or not it is favorable to the healthy development of the domestic economy and to the further heightening of the entire society's economic efficiency.

IV. The Direction and Principles of Price Reform

The price reform effort seeks to set up gradually a price control system whereby the prices of a small number of major commodities which are of vital importance to the national economy and the people's livelihood and labor charges are controlled by the state, and the prices of vast numbers of other general commodities and labor charges are set by the market. It also seeks to standardize various price behaviors. During the period of the Eighth Five-Year Plan, we must narrow the scope of prices set by the state even further, and must gradually expand the scope of those set by the market. As to which products must have prices set by the state and which products can have prices set by the market, these should be somewhat differentiated according to the changes of the economic environment, and the technical and economic characteristics of the products. In general, the following points should be taken into consideration: First, the supply and demand flexibility of the products. Products which are less flexible both in supply and demand and for which it is difficult to achieve a balance between supply and demand within a short period of time should have prices that are controlled by the state. Price adjustments should be more flexible both in supply and demand. Price controls can gradually be relaxed for those products which can basically achieve a balance between supply and demand now and for some time to come. Second, the means of production that are of vital importance to the national economy, prone to monopoly, lacking resources, and vulnerable to suffering after price controls are relaxed should have prices that are set by the state. The state should also control the prices of products and labor charges related to social welfare. Third, activities related to consumption, subsistence, development, and enjoyment should be treated differently. The prices of subsistence goods and services should be strictly controlled by the state and readjusted in a planned way to ensure a stable standard of living for low income earners, the prices of the means of development and for enjoyment should be gradually relaxed and set by the market. Fourth, the state should take measures to control the prices of superior products to weaken their tendency to raise the prices of inferior products. For the prices of inferior products that are varied in colors, designs, and specifications, and can be easily substituted, some can be set by the state by stipulating the purchasing and marketing price difference and the profit rate, and others can be appropriately relaxed. It should be pointed out that, in setting prices, the state should have a scientific basis, strive to conform with the requirements of the law of value, and take into account changes in the supply and demand relation, so that enterprises of intermediate operational level are able not only to maintain simple reproduction, but are also able to repay loans and expand production, thereby creating conditions for enterprises to develop rational competition under the same conditions, and by doing away with enterprise losses or profits resulting from irrational prices. With the further expansion of economic exchanges with foreign countries, the prices of some products should gradually

draw close to world market prices. The scope of the products drawing close to world market prices can only be gradually expanded, and the price difference between the two should gradually be narrowed. Judging from the present situation, the prices of oil and timber should gradually draw close to world market prices; it is not suitable to popularize in a simple way the system of setting prices by agents for commodities such as grain and fertilizer.

To ensure the smooth progress of price reform, the following principles should be followed. First, to maintain a basic balance between aggregate supply and demand, and maintain the basic stability of the general price level all over China. Given a general balance between aggregate supply and demand, the pace of price reform can be somewhat larger, and more price readjustment measures can be introduced. Otherwise, the pace should be slower and fewer measures should be introduced. Second, it is necessary to take into account the bearing capacity of state finance, the digestion capacity of enterprises, and the capacity of residents to withstand the strains. Necessary price subsidies are still needed, but the ways for providing subsidies should be improved, and the amounts be gradually reduced, so as to help improve the financial situation. The upward readjustment of purchasing prices for agricultural products have quite a strong impact on finance, and judging from the present situation, the pace should be prudent. The readjustment of prices for heavy industrial products involves mainly the redistribution of profits between industrial departments, and its direct influence on the revenue of state finance is smaller. While readjusting prices for basic products, we should take measures to urge enterprises to reduce consumption and absorb a portion of the price increase factors to prevent follow-up products from shifting away that portion of the price increase, thus resulting in the resurgence of irrational price ratio. To solve the problem of purchasing prices exceeding marketing prices for agricultural and sideline products, and to readjust the prices for consumer goods, it is necessary to take practical measures to ensure that the actual income of the great majority of the residents will not be reduced. To link wage with price index is not a good method, because that would push up prices and wages in rotation. The first thing to do now is to turn price subsidy outside the wage into basic wage, of the future wage increases, a part should be used for readjusting the wage structure, and a part for price compensation. For low income families, subsidies could be provided separately to help them overcome difficulties. Third, in selecting items for price readjustment, we should try our best to accomplish good results, minor shock, and less subsidies, and strictly control the margin of increase of price index and its chain reaction. In introducing price readjustment items, we should look ahead and behind, take a realistic view of the situation, appropriately stagger the time off, and flexibly control the strength and moment. Once a decision is made, it should be introduced quickly. Fourth, for price readjustment and reform, it is necessary to set eyes on building a perfect,

rational price formation mechanism and price management system, and further perfect the price management system in which prices set by the state, guided by the state, and set by the market exist side by side.

Journal on Declining Enterprise Profits

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[Article by Liu Taosheng (0491 7118 3932) and Jia Zhirang (6328 1807 6245), edited by Liu Qichang (0491 0336 2490): "Does This Mean Reduced Efficiency or Loss of Control Over Distribution?—A Perspective on the Problem of Falling Profits in Industrial Enterprises"]

[Text] In the first half of 1991, economic development in Shaanxi Province, like that of the whole country, continued to move in a good direction. The Shaanxi Statistical Bureau, in its estimates of performance for the first half year, calculated in accordance with the economic development situation from January to May, concluded: Provincial GNP (gross national product) was 18.8 billion yuan, a growth of 9 percent over the same period last year; provincial national income was 15.4 billion yuan, up 6 percent; industrial gross output value was 21.3 billion yuan, up 14.5 percent; and industrial net output value was 5.5 billion yuan, up 13 percent. In economic movement, however, a number of deep-level problems have still not been rectified. In particular, enterprise profits have fallen sharply, the volume of losses has risen markedly, and there are prominent financial difficulties. From January to May, income from sales of products by industrial enterprises under the local budget throughout the province totalled 5.499 billion yuan. Although this was 10.6 percent higher than the same period last year, profits and taxes realized were only 508 million yuan. This was a decline of 18.7 percent from the same period last year, which had itself seen a 28.5 percent decline. Only 9.23 yuan in profits and taxes were realized from each 100 yuan of sales income. This represented a decline of 3.03 yuan from the same period last year, which had seen a decline of 3.53 yuan. With the great decline in enterprise profits, there was also a large increase in enterprise losses. The number of money-losing industrial enterprises within the local budget throughout the province grew from 355 in May last year to 444 this year. This meant that loss-makers expanded from 33.9 to 42.7 percent. The total losses of these enterprises reached 196 million yuan, up 86.9 percent from the same period last year, which itself had seen an increase of 1.5 times. This great decline in the profits of enterprises and great increase in their losses has been dubbed "the great landslide of economic efficiency".

Is the decline in enterprise profits a landslide in economic efficiency? The answer is no. Actually, at the same time that enterprise profits have declined, economic efficiency has actually increased. Economic efficiency refers to the ratio between labor (including live labor and materialized labor), consumption, and the effective results of production (or output) in economic activities.

Profits and taxes, however, are just the net income from the production operations of enterprises. If we start with the essential meaning of economic efficiency, we see that the trend in economic efficiency and the trend in enterprise profits are moving in opposite directions in many enterprises. That is, while there has been a great reduction in profits and taxes, economic efficiency has continually improved. 1) From the ratio between operational results of production and volume of materials consumed in production operations, if we compare the January-May period with the same period last year, of 62 types of major products from 120 key enterprises in the provincial statistics, 41 types of products, or 66.1 percent of the total, saw a decline in consumption per-unit product as compared to the same period last year. Meanwhile, the comprehensive energy consumption per 10,000 yuan of industrial output at or above the county level, fell 11 percent. This shows that the use-efficiency of goods and materials improved. 2) Seen from the ratio between the volume of results of production operations and the volume of live labor input, the overall labor productivity of industrial personnel throughout the province grew from 8,677 yuan in January to May last year to 9,814 yuan this year, an increase of 10.6 percent. The per capita net industrial output value of staff and workers rose from 2,326 yuan to 2,547 yuan, an increase of 9.5 percent. This shows that the efficiency of live labor utilization has also improved.

The great decline in enterprise profits and the great rise in losses are due to diverse factors, but they have occurred mainly because of loss of control over distribution. This is centrally manifested in the following several aspects.

1. There Has Been Loss of Control Over Primary Distribution By Enterprises; Individual Income Has Greatly Increased and Promoted Great, Sustained Rise in Costs

From January-May this year, the total costs of comparable products of industrial enterprises within the local budget throughout the province rose 5.4 percent over the same period last year, which had itself seen an increase of 7.3 percent. The main factors affecting the rise in costs were: 1) A rise in price of raw and semi-finished materials. In a survey of 130 key enterprises, the price of major raw materials was reported to have risen 8.2 percent over the same period last year. 2) Increases in wages, bonuses, and subsidies for the staff and workers in enterprises have been too swift and too frequent. The total wages of staff and workers in industrial enterprises throughout the province (including bonuses and various subsidies) grew 13 percent over the same period last year. This was 2.4 percent above the growth of labor productivity. The growth in welfare benefit payments, income in kind, and other income of staff and workers also exceeded the rise in wages. 3) There has been excessive use of funds and a great increase in interest payments. At the end of May, credit employed by industrial enterprises throughout the province had reached 15 billion yuan and monthly interest payments totalled 120 million yuan. 4) All types of nonoperational expenditures have

increased and this has resulted in a decline in enterprise profits. This has mainly involved subscription to bonds, paying contract worker insurance funds, paying the wages and welfare benefits of retired workers, and paying various kinds of levies. When we look at the various factors involved in overall costs, we see that the increase in the price of raw materials has increased costs and reduced profits. For this reason, through corresponding increases in production of raw materials and the profits and taxes which sales enterprises should have handed up, funds should have flowed into the state treasury. However, because reform of the tax and prices systems has not been coordinated, the state only receives a very small part of this, and the majority goes into the incomes of the enterprise staff and workers. The state only receives one-quarter of the bank interest. The other three-quarters becomes the income of depositors and bank staff and workers. Wages, bonuses, welfare benefit payments, and interest have all become "rigid" expenditures in distribution and only profits are "plastic." The taxes which the state should receive should also be rigid. However, as the enterprises are seriously behind in tax payments, this has also become "flexible." The rigid expenditure, which is mainly individual income, has seen continued years of growth and nonoperational expenditure has also increased annually. This has inevitably produced a situation of reduced profits, increased losses, and exacerbated financial difficulties.

II. Prices Distortion Has Had Negative Effect on Distribution, Has Reduced Enterprise Profits, State Financial Income

1. The defects of the "dual-track system" of pricing have been utilized by some "speculators," and a small number of people have thereby become rich. This has also produced a rise in the prices of the means of production used by enterprises, product costs have increased, and profits have declined.

2. Distortions in the pricing mechanism have led to an expansion of profit differentials between industries and enterprises, and this has affected both the profits handed up by the enterprises and the state's financial balance. The profits of enterprises in high-price industries are great and grow swiftly, but the amounts coming back to state coffers are very small. Enterprise profits in low-price industries are becoming increasingly small and losses are showing great increases. This has meant a great increase in state financial expenditure on refunds and subsidies, while financial income has declined.

3. Pricing has little power to regulate the individual incomes of staff and workers. In the enterprises in low-price, low-profit industries, the wages, bonuses, and welfare benefit payments have seen "rigid" growth for repeated years. Meanwhile there has been a serious loss of control over the wages, bonuses, and welfare benefit payments of staff and workers in enterprises in high-price, high-profit industries. Both these elements squeeze out state income and enterprise development funds.

III. Some Problems Exist in Enterprise Contracts Which Affect Rational Distribution, Raising Enterprise Profit Levels

1. The changeover between the two contract periods will affect enterprise profits and taxes. This year is the change-over year for enterprise contracts. Last year, in order to complete their contracted tasks, enterprises did not include some expenditure which should have gone into costs, and instead carried it forward to this year. This year, in order to keep down the base figure in the next round of contracts, they have made and reported greatly increased expenditure. These two factors are interlocked and are an important reason why enterprise profits have seen a great decline and losses have risen swiftly.

2. The idea of "looking for money in everything" has had a negative effect on enterprise distribution. Since the institution of the contracts, the problem of "replacing management with contracts" appeared widely and the level of ideological and political work declined. The idea of "looking for money in everything" is pounding the communist idea of not considering rewards and has harmed the principle of distribution according to work. Because it is difficult to institute scientific quota management in some enterprises, it has been replaced by short-term contracts and sub-contracting, increasing the wage expenditure of enterprises.

3. The employment powers of some enterprises are too dispersed and labor discipline is lax. Arduous, dirty, and dangerous work is now done by temporary workers, forming a situation "whereby the temporary workers work and the regular workers look on." This has affected enterprise production operations and also resulted in a rise in expenditure and a fall in profits.

According to estimates, the distribution proportions of the net output value of industrial enterprises in Shaanxi Province were as follows: Individual income 46.7 percent, state income 44.5 percent, and enterprise income only 8.8 percent. This compares with the situation in 1984 when the state obtained 46.2 percent, the enterprises 19.7 percent, and individual income constituted 34.1 percent. Thus, we see that state income has fallen by 1.7 percent, enterprise income by 10.9 percent, and individual income has risen by 12.6 percent.

From the above analysis, it is not difficult to see that the decline in enterprise profits is mainly a result of loss of control over distribution and the existence over the years of the problem of "V eating M" (preceding initials in Roman script—expansion unknown).

Journal Reviews Scarcity of Natural Resources

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[Article by Cheng Xuping (445) 4872 1627] of the Chinese Academy of Geological and Mining Economics, edited by Zeng Ming (2582 0682): "China's Scarcity of Natural Resources, Options in the Development of Resources"]

(Text) Major Types, Causes of Scarcity of Natural Resources in China

While the scarcity of natural resources is determined by the objective existence of the resources in question, the degree of scarcity is also affected by a combination of factors, such as the social system, economic foundation, degree of openness (or international trade) and the historical development of the country or region concerned. The scarcity of natural resources in China has historical as well as immediate reasons. Summing up, there are the following major types:

1. The natural scarcity of endowed factors.

As leading factors in the operation of the national economy, natural resources are the source that supplies the necessary conditions for the material foundation. They are chiefly determined by the ore-forming geological conditions and geomorphic environment of a country or region. The richness of natural resources is also affected by regional factors.

In a country with a vast territory like China, there is a great disparity between the supply of essential natural resources and the needs of economic and social development as a whole. (See table below)

Comparison Between Per Capita Possession of Natural Resources in China and the World Average

Serial Number	Type of Resources	Unit	Per-Capita Possession World	Per-Capita Possession China	China/World
1	Land				32/100
2	Arable land				52/100
3	Forest area				13/100
4	Grassland				33/100
5	Land for farming, forestry, and animal husbandry				31/100
6	Forest accumulation				13/100
7	Fresh water				24/100
8	Crude oil	ton	18.39	2.14	13/100
9	Coal	ton	180.8	179.67	99.3/100
10	Iron (ore)	ton	24.03	9.23	34/100
11	Tin	Kg	2.26	1.87	82.7/100
12	Aluminum	Kg	7.08	5.9	110/100
13	Nickel	Kg	14.2	4.12	29/100
14	Manganese	ton	0.29	0.053	18.3/100
15	Bauxite	ton	3.74	0.80	13.9/100
16	Gold	Kg	0.01	0.0014	14/100
17	Tungsten	Kg	3.48	1.72	29.3/100
18	Lead	Kg	35.2	10.63	25.3/100
19	Zinc	Kg	43.1	23.3	58.0/100

Source: "The Exploitation News," bound volume, 1990

Obviously the population factor will also affect the supply of resources and aggravate the scarcity of natural resources. Discrepancies between the distribution of population and the distribution of natural resources will further aggravate the imbalance in the degree of scarcity between regions. It has been statistically worked out that if we draw a line between Heihe in Heilongjiang and Tengchong in Yunnan, we will find 90 percent of the population east of this line, while most natural resources, primarily mineral resources, are located in areas west of this line. The western part of the country is mostly covered by mountains, gorges, plateaus, and deserts. Though rich in underground resources, these areas have poor surface conditions, affecting subsistence and economic development.

2. Developmental scarcity.

The disparity in economic development also produces great disparity in the choice of development targets and tasks between regions. If a poor country does not want to lag behind in the course of world history, it must strive to forge ahead at great speed toward prosperity. Under given historical conditions, their depletion of resources is likely to be considerable due to their low social, economic, scientific, and technological levels. This will further aggravate the scarcity of natural resources and is a major reason for the scarcity of natural resources in many developing countries.

Actually, this scarcity is also the result of continuous social reproduction. It covers two aspects, namely, the

supply of material resources and the continuous consumption of products produced. Total supply and total demand are growing continuously. When supply and demand do not correspond, that is, when one grows at a faster rate than the other, there will be disharmony between supply and demand. In other words, there will be scarcity or surplus. Our economic development target is to complete the transition from a low-income country to a middle-income one (per capita GNP averaging \$450 to \$1,000) and join the ranks of the well-off countries during the years 2000 to 2050. This will bring great pressure to bear upon the long-term supply of resources.

Statistics show that where primary energy resources are concerned, China's energy production should be increased by 200 percent rather than by 100 percent by the end of this century when calculated on the basis of equivalent energy units at the 1980 world level. If calculated on the basis of the 1970 world level, energy production should at least be quadrupled and power generation should also be increased by almost four times. According to the 1980 world level, by the end of this century, China's steel production should reach 150 to 170 million tons and auto production should reach 5.45 million vehicles. As things currently stand, it is almost impossible to achieve this level.

3. Scarcity caused by economic backwardness and the low level of productivity

China is about to make its economic takeoff, which means that huge investment will be required. The fact that China's latent natural resources are not very abundant, that essential technical transformation in the development of resources is beset with problems and that material products cannot be utilized to the full has indirectly aggravated the scarcity of natural resources as a whole.

Poor mining and dressing techniques have led to serious waste in the actual exploitation of natural resources. For example, in our mining and dressing, the average recovery rate is 40 to 60 percent for nonferrous metals, about 38 percent for ferrous metals, 20 to 40 percent for nonmetallic ores, 40 percent for coal mines, and 10 to 20 percent for privately-operated coal mines. In some cases, the loss of useful constituents in mining and dressing is as high as 60 percent or more. In short, in the principal mines, the rate of comprehensive utilization of valuable minerals is, on the average, about one-half or one-third of the reserves utilized, the rest is lost in the process of extraction, dressing, and smelting. Meanwhile, 80 percent of China's mineral deposits have associated structures with useful constituents. For instance, one-quarter of the copper, one-fifth of the gold, and one-quarter of the molybdenum ores are mined in associated structures. In many mines, the value of associated minerals wasted is several times, or even dozens of times, higher than that of the raw ore. According to a survey of 1,845 major mines, only 2 percent have a comprehensive utilization rate of over 70 percent, less than 15 percent have a utilization rate of 50 percent, and in 75 percent of the

mines, the utilization rate of useful constituents is below 25 percent. Of the 4,072 state mines surveyed, only 419, or 10 percent of the total, have a comprehensive utilization value. Of these 419 mines, only 149, or 36 percent, have a satisfactory rate of comprehensive recovery; 133 mines, or 32 percent, carry out partial recovery, while 135, or 30 percent, do not carry out recovery at all. These 419 mines have 82 types of associated minerals (useful constituents) but only 54 of these are recovered and utilized. From the perspective of recovery during the smelting process, only 11 to 18 types of associated constituents are recoverable in the smelting of nonferrous metals. The average recovery rate is 40 to 70 percent. In the Soviet Union, as many as 74 types of constituents were recovered in 1980, representing a recovery rate of 80 percent. The recovery rate is 83 to 95 percent in Japan and close to 100 percent in the United States. The 10 types of nonferrous metals under study have 43 types of associated useful constituents, but only 33 types are recovered and utilized. The utilization rate of associated constituents is 73 percent. In Hanyan City, the utilization rate of rare earth elements is a mere 2 percent.

The main reason for this scarcity is the lack of systematic guidance for the utilization of resource in the running of the national economy. The poor standard of macroeconomic and microeconomic management of natural resources, coupled with old techniques and irrational investment, have posed functional obstacles to the transformation of existing (and exploitable) latent supply into actual supply.

4. Scarcity induced by uneven allocation of cash input

If we analyze the cash supply structure for the development of natural resources, we will find that the scarcity of natural resources stems from the uneven allocation of cash supply in two major directions in our choice of economic development models. First, in the allocation of state funds, the proportion of geological prospecting fees in state expenditure was 1.8 percent in 1978 and 1.6 percent in 1985. This has weakened the incentives for tapping natural resources. The excessive disparity in the value created by natural resources as objects of production and the value created by follow-up industries has also resulted in wide gaps between input and output in the production of raw materials. Second, in actual practice, there is a lack of flexible measures in the resource management models. This has resulted in the coexistence of shortages (shortage of natural resources held in reserve) and excesses (large quantities of reserves lying idle) in isolated areas. Improper and uneven allocation of cash supply makes it difficult, in the supply of natural resources, to choose the means of cash distribution and input in a more flexible way on the basis of the strategy of economic development. This results in disparities between regional development strategies and the overall distribution structure of actual cash input, between regional development strategies and resource distribution, and between the demand for mining or mineral

products, as well as the degree, level and structure of demand, on the one hand, and cash input (supply) on the other.

5. Poor material benefits in the utilization of resources has indirectly intensified the scarcity of natural resources.

The supply of natural resources is conditioned by the total amount and quality of resources as well as their degree of scarcity. The economic use of resources and efforts to reduce their consumption are effective methods of reducing pressure on the demand for resources and in ameliorating the scarcity of natural resources within a given period. In the realm of industrial production, we should correctly handle the relationship between the extensive and intensive forms of enlarged reproduction and try, as far as possible, to choose the intensive form of enlarged reproduction.

Due to historical reasons, the phenomenon of high-input and low-output still prevails in the utilization of resources in China. The high speed of economic development is achieved at the cost of the massive consumption of natural resources. Between 1953 and 1985, the economic performance coefficient of energy, iron ores and nonferrous metals was 611 yuan/ton (as published), 2,810 yuan/ton and 250,000 yuan/ton respectively, while the consumption intensity averaged 16.4 tons (as published)/10,000 yuan, 3.6 tons/10,000 yuan and 199.2 tons/100 million yuan. (Figures based on "Industrial Economy Statistics, 1949-1984" and China Statistical Yearbook, 1986 published by the State Statistical Bureau) Compared with 1953, national income was 9.6 times higher in 1985, but the consumption of energy, iron ore, and nonferrous metals was 14, 24, and 23 times higher, with the economic performance coefficient down by 32 percent, 7.9 times, and 7.5 times respectively.

Compared with the level achieved by developed countries during the 1970's, the rate of energy output value in China in 1986 was only 68 percent that of the United States, 54.7 percent of Japan, 53.3 percent of the former FRG, and 69.9 percent that of Canada. Among the developing countries, the rate of energy output value in India in 1986 was also 3.5 times higher than ours. Compared with India in 1970 and 1986, our 1986 figures were only 54.1 percent and 22.4 percent those of India's. This shows that as far as the effectiveness of energy utilization is concerned, there is indeed a vast gap between China and the advanced countries. Just imagine, if we can achieve an energy utilization rate equivalent to that of the United States in the 1970's, we can cut annual energy consumption by nearly half. Due to this drawback, and despite our sizable annual supply of energy, we are in fact unable to make full use of this supply. By continuously increasing the supply of energy and raw materials and trying to sustain the speed of economic development through high consumption and low efficiency, we have greatly increased the burden on the resources support system and aggravated the degree of scarcity.

Characteristics of China's Scarcity of Mineral Resources: Options in Resources Development

China is a developing socialist country which started late and from a low level. Subjectively, we all wish to gradually relax the tension in resources supply. However, as things stand in our country, it is obviously impossible for us to rely on the market economy alone to bring about a balance between supply and demand and release the pressure of limited resources. Our social system, productivity, and degree of industrialization has determined that the scarcity of natural resources is a stage that cannot be skipped. To begin with, unlike Japan, the United States, and Western Europe, we cannot rely on our technological and economic superiority to control the world resources market and rely on foreign countries for the supply of natural resources. Second, in order to achieve an optimum distribution of resources at home, regulation by market forces cannot always produce the desired result under the present circumstances when prices are seriously distorted. Sometimes this may even lead to soaring prices and inflation, culminating in serious social unrest. Under the present circumstances, if we pin all our hope on the price reform and attribute all irrationalities to irrational pricing, we will obscure the more profound economic causes of the problem of the scarcity of natural resources. The only option left to us by history is to correctly choose our development road and readjust our policies under the present scarcity of natural resources. At the same time, we must also draw support from development of the planned commodity market to gradually overcome the difficulties created by the scarcity of natural resources.

The types and causes of the scarcity of natural resources in our country also provide the turning point for solving the problem of the scarcity of natural resources.

1. Flexibility is a major characteristics of China's natural resources.

Flexibility suggests a high adaptability to environmental parameters. Although the question of natural resources involves political, economic, social, and ecological questions, the degree of the flexibility of natural resources is chiefly determined by the relationship between the degree of scarcity and characteristics of the natural resources themselves, as well as the actual political, economic, social and environmental situation. The five major types of scarcity of natural resources and the possibilities for putting an end to this scarcity constitute the major characteristics of natural resources in China, namely, great flexibility.

One of the manifestations of flexibility is the potential for more resources to be tapped. This potential mainly comes from three areas. First, by stepping up the geological survey of natural resources and finding new resources, we can ensure a given rate of total supply. Second, through such means as reducing consumption of natural resources and improving the utilization ratio, we

can make full use of existing resources. Third, through a policy aimed at accelerating the "replacement" of natural resources.

Another manifestation of flexibility is the low rate of dependency on foreign natural resources. Despite the fact that there has been a steady increase in the quantity of natural resources imported, our ability to resist changes in the international situation is still great. We should not passively rely on imports to satisfy our needs. Rather, we should take the initiative in our own hands, base ourselves on our own resources, and import selected items at the most opportune moment. The West learned its lesson in this connection. In 1973, Western countries were hit by an unprecedented oil crisis. This triggered off the second most serious economic crisis in the Western world since World War II. Through this crisis, many countries came to realize that they must try to cast off their dependence for raw materials and increase their independence in the supply of raw materials. They also realized that they must make the most of cheap natural resources from abroad, import more raw materials, and retain as much of their domestic resources as possible, to strengthen their own strategic defense capability. There is much in this kind of trade strategy for the development of natural resources that we can make use of in handling domestic and foreign natural resources. For instance, in the recent Gulf crisis, oil supply dropped drastically on the world market. This crisis in the Middle East had a rather small impact on the West because, apart from the fact that the economic muscles of the Western industrial countries were much stronger than in the 1970's, the United States, Western Europe and Japan had stocked up a large quantity of oil for emergency use.

2. Price readjustment has not brought about a fundamental change in the scarcity of natural resources and has not significantly improved the utilization of natural resources.

Changes in prices are closely related to supply and demand in countries where the market economy is practiced. As far as commodities are concerned, prices play an important role as a lever. In China, however, the key to the solution of the question of resources lies in the intensified management of natural resources. We must do everything in our power to protect our natural resources, and try as far as possible to put an end to the low level of the conservation and utilization of natural resources. There is no denying that the upward readjustment of prices can stimulate further expansion of the scale of mining. For instance, readjustment of the gold price in recent years has promoted a substantial growth in gold output. However, this measure is not very effective in changing the utilization ratio of the output value of natural resources. Since the founding of the PRC, we have made several price readjustments in energy-related minerals, iron, and nonferrous metals, but instead of showing a substantial improvement, the utilization effect has sometimes dropped.

This shows that changes in prices cannot put an end to the phenomenon of high input and low output in the utilization of natural resources, or bring the overall effectiveness in the utilization of natural resources closer to the level of the developed countries. Rather, they have directly stimulated the further expansion of the scale of mining. The truth is, they have promoted the extensive form of enlarged reproduction and the speed of the national economy's development is ensured through a low level of development and utilization of natural resources. Since the readjustment of the existing prices of raw materials cannot break away from the pattern of multiple policymakers and benefactors in the management of natural resources, the continued reliance on the price incentive can only prolong the scarcity of natural resources and stimulate the predatory development of natural resources.

3. In a strategic sense, the tangible element of constraint is a technique rather than raw materials.

In the forecasting and analysis of the future development of natural resources, people tend to unknowingly pay attention to and exaggerate the difference between demand and the total reserve of natural resources in the first place, although this kind of analysis and forecasting is important and useful. Seen from the perspective of social development, science and technology, culture, politics, and so on, objective limitations have made it impossible for us to keep up with the rich countries. We also do not have the ability to put to an immediate end certain drawbacks in total demand and total supply and ensure a marked increase in supply. Thus, as far as the ability to respond to the supply of conventional materials is concerned, we should stress the interrelations and role between the supply of natural resources and the technological system. We also need the support of the government, particularly its concern and support in scientific research of a practical nature.

4. Should the development of resources be "checked" or "promoted"?

At present, many experts in the fields of economics, sociology, and future studies believe that in the development of the modern economy, when the supply of natural resources which function as the precondition becomes out of line with reality, and important breakthroughs are not made in technologies for prospecting and developing natural resources, ruptures are likely to occur between the supply of natural resources and economic development. This will have a great impact on society's overall economy. Thus, most experts have, after reflecting on the traditional mode of development, put forward the new strategy of a sustained, stable, and coordinated development. But will this mode become the common wish of the whole world and accepted as such?

China must, and has to, develop. This is a pressing task before us, it is also the common aspiration of the Chinese people in their hundreds of millions. The truth is, we

cannot always lag behind. Since we are living in this new stage, the question of "the formation of demand for natural resources" will continue to gain momentum. The pressure mainly comes from the following three aspects. First, when a developing country has reached a stage when it has more than enough to eat and feed itself, it will feel more and more strongly the "demonstrative" effects of the way of life of the developed countries. Second, material constraints which seldom manifest themselves when economic growth in a developing country is at a low-income level will become more and more pronounced as the economic scale expands and the quality of life improves. Third, the development of modern information technology has narrowed the gap between people in various parts of the world and people will tend to compare with others. The three reasons stated above determine that we cannot rely on economic development to reduce the demand for natural resources and that the trend of the growing demand for resources is irreversible.

5. We must correctly choose the mode of management of natural resources and find an effective solution to the utilization and consumption of natural resources.

After the problem of food and clothing has been resolved for the majority of Chinese people, the difficulty in developing the economy lies in addressing the questions of universal prosperity and a high degree of modernization. There are bound to be obstacles to the solution of these questions and the question of the scarcity of natural resources is one of them. Reliance on the market forces, which are intended for tackling the question of short-term supply, in addressing the question of demand in the long-term development of natural resources can only go against people's original desires. Thus, proceeding from our existing conditions, we must first determine the mode with which the state manages the country's natural resources and create an environment wherein the society shows concern for its natural resources. The state must play its role in coordinating the supply of natural resources and achieve the optimum distribution of natural resources. Second, we must change the traditional approach to the utilization of natural resources. That is, we must readjust the pattern of the development of resources in the development of the national economy, speed up technological innovations, and improve the management level. Third, we must guide society's desires for, and approach to, the consumption of natural resources to minimize waste.

6. In the formulation and implementation of policies regarding natural resources, we must take into consideration the country's overall plan and even the plans of other countries.

First, socialist economic laws and the system of economic laws are the theoretical basis for the formulation of policies regarding natural resources. The reality of the scarcity of natural resources is the theoretical environment for the formulation of policies. In macroeconomic terms, we should persist in taking the state as the main

body. We must bear in mind the overall situation of the national economy and establish an independent system of policies for the development of natural resources, based on our national conditions and which can ensure the timely readjustment of our policies, uphold the policy of reform and opening to the outside world, and satisfy the needs of the national economy. In intermediate terms, we must fully establish the targets of regional policies regarding natural resources, bringing them into line with the state's policies while integrating them with regional superiorities and the conditions and targets of regional development. In this way, an organic integration of policies regarding natural resources and the distribution of resources in the whole country can be achieved in the short term. In microeconomic terms, we must properly handle the relationship between the key areas and the general, the long- and the short-term, persist in maintaining the rational distribution of enterprises, correctly choose the scale of enterprises, and properly choose the areas for priority in development.

Second, the practice of policy planning is an indication of the comprehensive nature of policies and the systematic management of natural resources. The objective of policy planning is to embody the effectiveness and practicality of short-term policies as well as to give expression to the feasibility of future plans. It has to ameliorate the immediate problem of the short supply of natural resources while finding a comprehensive solution to the scarcity of natural resources in the long term. Only when our policies are feasible and our methods correct can we ensure the reliability and accuracy of policies formulated and guarantee their sustained and steady implementation.

7. We must pay attention to the characteristics of the development of resources and adopt the view of development in the management of resources.

The question of natural resources cannot be simply interpreted as natural income from natural endowments. The scarcity of natural resources has a lot to do with economic development. The organic integration of economic development and the rational distribution of natural resources will greatly affect the solution of this problem. Thus, we must actively promote the policy of regional equilibrium, put an end to the old pattern of relying on the old resources bases in the development of natural resources, establish new leading regions and support points, and adopt effective measures to put an end to the scarcity of natural resources. This requires that we judge the choice of time and place for the development of natural resources according to the choice of development targets, establish a model of multistage planning according to the different levels of the development target, and reshape the mode for the management of resources according to the feasibility of the development target. [dated] April 1991

Price Adjustments Cause 'Minimal' Inflation

92CE0208A Beijing JINGJI CANKAO BAO in Chinese
29 Nov 91 p 1

[Article by reporter Wang Xu (3769 2485): "Introduction of Several Measures Has Not Caused Major Disturbances—Price Reform Makes Good Progress in 1991"]

[Text] The introduction of several important policies has not triggered serious price disturbances. China's price reform has kept prices basically stable this year while making fairly great strides.

According to a State Administration of Commodity Prices spokesman, the state has introduced several important price reform measures this year. First, with respect to price adjustments, crude, iron and steel, and rail cargo-transport prices were readjusted at the central level in the first quarter, the monopolized sale price of grain and oil was readjusted in the second quarter, and individual provinces and prefectures readjusted the price of downstream products subsequent to the grain and oil price hike.

The restructuring of the price system has also made great strides. In conjunction with efforts to invigorate large and medium-sized enterprises, the restructuring of the price system has taken a step further to adopt a guiding principle to open up and enliven the economy. As a result, the state has handed down authority to examine and approve prices which it had temporarily taken control of during the period of rectification and improvement. It has also reduced the categories of products which require price reporting and approval from 13 to 5. Some product prices which used to be state-administered, such as sugar, are now market-regulated. The "double-track" pricing system has been abolished and the two tracks "merged" for several categories of capital goods, including cement, rubber, cold-rolled thin sheets, and silicon steel. Overall, the price system is gradually being smoothed out and the scope of market regulation is slowly expanding. Currently, the price of less than 25 percent of the agricultural and sideline products, and only 29.8 percent of the consumer goods, is still being set by the state.

It is gratifying that this year's price reform is being accomplished while keeping prices stable. By October, the nation's overall price level had risen only 2.7 percent. This year, like last year, will see minimal inflation. Market stability is especially obvious in the market-regulated sector of the economy. It is estimated that the overall price level in that sector has fallen by 2 percent compared to the same period last year.

Economists Discuss Revitalizing State Enterprises

92CE0208B Beijing JINGJI CANKAO BAO in Chinese
29 Nov 91 p 1

[Article by reporter Fu Gang (0265 0474): "Economists Held Informal Discussion on Improving Large and

Medium-Sized State-Run Enterprises—Delineate Property Rights and Set Up an Orderly Market"]

[Text] The Chinese Industrial and Business Administration and Management Society recently invited several of Beijing's economists to an informal discussion on how to revitalize large and medium-sized state-run enterprises.

In a speech, Li Yining (0632 0110 1380), Beijing University economics professor, said the key to revitalizing large and medium-sized enterprises lies in changing the enterprise operating mechanisms. To make this change, it is necessary to accelerate the process of taking inventory to determine asset value and clarify the property rights relationships among the investing bodies and amplify and improve the state asset management system. In his opinion, China's state asset management departments should gradually be turned into holders of the state's shares in the large- and medium-sized state-run enterprises, and the latter should also have an interest in one another through stock participation. Enterprise's board of directors should consist of representatives of many types of investors in state-owned assets. Such enterprises will be limited liability companies. Their stocks may be transferred among the different types of investors. Of course, some large- and medium-sized state-run enterprises may also adopt the format of a shareholding limited liability company and issue stocks to the public. Li also said that during the restructuring of the property rights system, the large- and medium-sized enterprises should get rid of the old convention that all assets belong to the departments or localities, so that the resources can be distributed properly among the departments and localities. To accomplish this, it will be necessary to give full play to the securities markets, and through them, the new investments can be guided to the efficient sectors.

Professor Wang Jue (3769 3778) of the CPC Central Party School said that today the large- and medium-sized enterprises have yet to escape from their fate as appendages of the government departments. They have no right to determine how to dispose of their own assets and have no right to decide on how to allocate their own profits, and so it is very difficult for them to make their own management decisions, take responsibilities for their own profits and losses, develop on their own, and restrain their own behavior. On the other hand, the government's administrative departments, as representatives of the asset owners, are naturally concerned about whether the assets are appreciating in value, and it is very difficult for them not to interfere in enterprises' management activities. Thus, the government department's management system must be restructured to separate government from enterprises. In other words, we must separate the government's function as administrator and manager from its function as property owner, separate its macro regulation and control rights from enterprises' right to own assets, and separate enterprises' right to own assets from their right to manage the assets. For example, the government's function as property owner may be handed over to a specialized organ, then

the latter will have the right to ask some publicly-owned legal entities to manage the state-owned assets on behalf of the state or turn those entities into different kinds of ventures through mutual stock participation.

Dai Yuanchen [2071 0954 2523], researcher at the CASS [Chinese Academy of Social Sciences] Economics Institute, pointed out that in today's market activities, the large- and medium-sized enterprises are at a disadvantage, because the failure to separate government and enterprises has tied their hands, and the tangled prices have exacerbated their problems, so that the main channel is clogged and the enterprises are overflowing. If we look at the positive side, we can say that at least we have a market. But the market system is imperfect and the market order needs to be improved. Under these conditions, the large- and medium-sized state-run enterprises are often the worst victims of unfair competition. Thus, to revitalize the large- and medium-sized enterprises, besides changing the enterprise management mechanisms, we must also develop an orderly market where there can be fair competition.

Other economists who took part in the discussions included Zhou Shulian [0710 0647 3371], Xue Yongping [0641 3057 2019], Wei Xinghua [3898 5281 5478], and Guo Dongle [6753 0392 2867].

Minister on State Enterprises' 'Dilemma'

02CE0208D Beijing JINGJI RIBAO in Chinese
29 Nov 91 p 1

[Article by reporter Mao Tie (3029 6993): "Ministry of Light Industry To Select Enterprises To Pilot a Change in Mechanisms—Restructuring the Workers' Wage System at Key Points"]

[Text] China's light industry will be selecting some large and medium-sized enterprises for a pilot project to emulate some of the operating mechanisms of the "three kinds of wholly or partially foreign-owned" enterprises and township enterprises and gradually change some of the large and medium-sized light industrial enterprises' internal mechanisms so they can make their own management decisions, take responsibility for their own profits and losses, restrain their own behavior, and accumulate and develop on their own.

China's large- and medium-sized light industrial enterprises are reportedly incurring huge losses. Statistics from 2,715 large- and medium-sized enterprises that keep independent accounts showed that a whopping 27 percent lost money last year. Their total loss came to 2.68 billion yuan. According to another set of data gathered from 37 light industrial industries and trades, 29 have been generating less and less per capita profit tax each year. Among them, the canning and furniture industries have produced negative figures. Statistics show that of the 1,979 large- and medium-sized enterprises in the 37 trades, 376 produced negative per capita profit tax.

At a recent symposium sponsored by the Ministry of Light Industry to discuss revitalizing the large- and medium-sized enterprises, many factory directors and managers said they were envious of the "Laosiang" (township enterprises) and "Laowai" (the three kinds of wholly or partially foreign-owned enterprises) for their management mechanisms. They felt that to improve the large- and medium-sized state-run enterprises, they needed Laosiang's and Laowai's operating mechanisms.

Minister Zeng Xianlin [2582 2009 2631] of the Ministry of Light Industry maintains that the clash between the old system and the new has put enterprises in a dilemma. On the one hand, they want to be freed from the shackles of the highly centralized planned system, and on the other hand, because they lack the ability to manage the business on their own, they yearn for the old planned guarantee system; on the one hand, they seek new opportunities in the market, but on the other hand, they are afraid of the risks introduced by the market factor; on the one hand, they hope to be rid of the government's administrative interventions, and on the other hand, they find it difficult to end their dependency on the government.

Zeng Xianlin maintains that the essence of changing the operating mechanisms lies in expanding and utilizing enterprises' power. In the past, under the conditions of the product economy, enterprises had little power. Today, changing over to the commodity economy would require a corresponding increase in enterprises' power. This is enterprises' predestination, and the fate of enterprises is in the hands of the leading group.

Zeng Xianlin asks that in studying the change in mechanisms, special attention be paid to four issues. First, workers should be allowed to come and go (right to use workers as enterprises see fit), thereby taking away the "iron rice bowl." Second, wages should be allowed to go up or down (income distribution right), thereby getting rid of the "big pot." Third, cadres may be moved up or down (job assignment right), thus putting away the "iron chair." Fourth, organs can be added or eliminated (installation right), thereby ending the cycles where "larger temples invite more gods."

Gao Shangquan Discusses 1992 Economic Tasks

02CE0208D Beijing JINGJI RIBAO in Chinese
29 Nov 91 p 1

[Article by reporters Zhang Chunrong (1728 2504 2837) and He Xudong (6320 2485 2639): "Invigorate the Large and Medium-Sized Enterprises and Accelerate the Change From the Old To the New System—First Look At the 1992 Blueprint for Restructuring the Economic System"]

[Text] The economic restructuring tasks for 1992, which concern everyone, have already been decided. Next year, while making agricultural reform more thorough, China will give priority to invigorating the large- and medium-sized state enterprises, accelerate market circulation and

reform of the social security system, actively advance reform of macro regulation and the control and distribution systems, and continue to work harder in the experimental units piloting major reforms which cannot be implemented fully in the near future because of certain conditions, so as to create conditions for accelerating the change from the old system to the new. These were disclosed at a recent news conference by Gao Shangquan (7559 1424 0356), vice chairman of the State Commission on Restructuring of the Economic System.

After 12 years, China's success in restructuring the economic system has caught the world's attention. But we still have some economic problems which urgently need to be resolved. The main problems before us are: Readjustment of the economic structure has been slow, economic efficiency is poor, and the basic economic relationships have not yet been completely smoothed out. All these problems are reflected centrally in the large and medium-sized state-run enterprises' lack of vitality. The basic solutions to these problems lie in deepening the reform process.

In enterprise reform, next year we will reportedly begin by changing some enterprise mechanisms to invigorate the large and medium-sized state-run enterprises. There are five specific steps. First, efforts will be stepped up to formulate detailed rules and regulations for implementing the "Enterprise Law" and revise the "Regulations Pertaining to a Factory Director's Work" and other relevant laws and rules and regulations. The emphasis will be on giving enterprises their rights to make management decisions in four areas, namely, cadre administration, labor utilization, distribution, and organ installation. Second, we will persist in perfecting the enterprise contracted management responsibility system to strengthen enterprise internal management. Third, the state's management methods will be overhauled, and a system that combines direct and indirect management, with emphasis on the latter, will gradually be installed. Practical and effective methods will be adopted to push enterprises toward the market step by step. Fourth, we will make sure that the superior will survive and the inferior eliminated and promote the proper circulation of factors of production and readjust the enterprise organizational structure. Fifth, the large and medium-sized state-run enterprises' burdens will be reduced to let enterprises concentrate their energy on enlivening production and operation.

With respect to reform at the macro level and in the circulation and distribution domains, every effort will be made to achieve substantive progress.

The method of planned management will be changed. Steps must be taken at the state level and the provincial and municipal level to change the method of managing the mandatory plans to suit the situation. The use of the method of fixed-point, fixed-quota supply combined with skillful price adjustments will be expanded for some

products which are under mandatory planning. The methods used to fulfill the guidance-type plans will be improved.

The restructuring of the investment system will be even more thorough, focusing especially on the optimization of the industrial structure, the product-mix, and the enterprise structure.

We will go all-out to implement the double-entry budget system and take practical and effective measures to reduce subsidies. We will make sure that different economic entities bear a fair share of the tax burden and create conditions to promote fair competition among enterprises.

The central bank's regulation and control functions will be improved. Efforts will be made to study and design a scientific quota system to regulate and control the monetary system. The specialized banks' management mechanisms will be improved, and the amount of mandatory distribution and administrative interference with respect to loans will be reduced. The interest rate and exchange rate and other economic levers will be used effectively, and the financial market will be developed.

Reform of the circulation system will be more thorough, and price reform will be pushed forward vigorously but steadily. The categories and quantity of centrally-allocated commodities will be reduced. Some products may be put under the system of state purchase orders or supply orders or long-term purchase contracts on a trial basis to enliven the circulation of factors of production. We will focus on the development of the wholesale market and perfect the system that integrates control and decontrol and manages different categories of agricultural products separately. Based on the principle of enlivening the economy and stabilizing the market, we will accelerate the pace of price reform somewhat and differentiate the products before readjusting or decontrolling their prices.

Targeting the phenomenon of unfair distribution, we will go all-out to promote the reform of the wage, social security, and housing systems. As urged by the National Conference on Housing System Reform, we will pursue nationwide housing reform this year and next year.

In addition, next year, in conjunction with the lowering of the income tax rate for state-run enterprises, we will go a step further to expand the pilot project to "separate taxes and profits." Different formats will be adopted to guide the different types of enterprises that have implemented the shareholding system on a trial basis. We will continue to study the classified tax system which is based on the delineation of central and local administrative power, and pilot projects will be set up in selected provinces and municipalities.

Efforts To Limit Production, Stockpiling Noted

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26 Nov 91 p 1

[Article: "State Council's Production Office Issues Progress Report on All-Out Effort To Restrict State-Run Industrial Enterprises' Production and Stockpiling"]

[Text] According to a public announcement regarding the state-run industrial enterprises' employment of the three funds and their progress in cutting back on the use of current fund for finished products, made by the State Council's Production Office today, the 40,000 state-run industrial enterprises that have accounts at the Industrial and Commercial Bank of China took up 361.825 billion yuan of the three kinds of funds (finished products, merchandize-shipped, and accounts receivable and prepayment for goods) in October, 792 million yuan less than the previous month, which also signaled the beginning of a decline since the use of current fund for finished products fell for the first time at the end of September. Specifically, 131.795 billion yuan in current funds for finished products was taken up, 2.025 billion yuan less than at the end of September and 872 million yuan less than at the end of June.

Since the second half of this year, because local governments and department leaders have been paying serious attention, there has been an all-out effort to limit production and reduce stockpiling by state-run industrial enterprises. Through the hard work of the masses of enterprise cadres and staff and workers, accelerated progress has been made to limit production and reduce stockpiling, and the results have become increasingly clear.

At the end of October, among the 43 provinces, autonomous regions, municipalities, and cities with province-level economic decisionmaking authority that have been instructed to limit production and reduce stockpiling, 19 produced outstanding results. They have been using less current funds for finished products each month. In less than 3 months, fund-use has dropped to below the level at the end of June. Liaoning, Hebei, Henan, Fujian, Shaanxi, Jiangsu, Hunan, Guangxi, Guizhou, Shenyang, Dalian, Harbin, Guangzhou, Xian, and other provinces, regions, and municipalities showed substantial reduction in the use of current funds for finished products compared to the end of June.

But progress in limiting production and reducing stockpiling has been uneven. Nationwide, 11 provinces, regions, and cities continued to show an increase in fund-use. The amount being taken up not only stayed at the same level as at the end of June, but actually increased in October over the September level. In particular, provinces and municipalities like Gansu, Sichuan, Yunnan, Shanghai, Beijing, Jilin, and Nanjing fell far short of their stockpile-reduction goals.

Statistics show that in the next two months, reducing stockpiles will be very arduous. All regions and departments must seek unity of thought and take decisive steps to tightly restrict enterprises' continued production and stockpiling. They should consider individual cases and perhaps limit or even stop the supply of energy resources and raw materials, withhold means of transportation, tighten the money supply, limit or halt bank loans, or use other means to stop those that should be stopped and restrict those that should be restricted. While focusing on limiting production and stockpiling, we should also do a good job in increasing the production and sale of goods that are determined to be hot-selling goods after the product-mix has been readjusted.

The State Council's Production Office's announcement of the state-run enterprises' use of the three funds and the progress report on the cut-back will be printed on page 2 of this newspaper in a few days.

Shaanxi Economic Official Views State Enterprises

92ce0182a Xian SHAANXI RIBAO in Chinese
9 Nov 91 p 2

[Article by Liu Jiantang (0491 1696 1016), director of the Shaanxi Economic Commission: "To Do A Good Job in Large and Medium-Sized State-Run Enterprises, We Need To Correctly Handle 11 Relations"]

[Text] Doing a good job in large and medium-sized state-run enterprises is a crucial and difficult point in building Chinese-style socialism. It directly affects not only whether the national economy can develop continuously, steadily, and in a coordinated manner but also the future and destiny of the party and the state, the exercise of the democratic rights of the people, the interest and status of the working class, and the consolidation of the democratic dictatorship of the people. It is an economic as well as political issue. After 11 years of the reform, practice has fully proved that deepening the reform is the basic way and solution for doing a good job in large and medium-sized state-run enterprises. Currently we need to handle and solve correctly relations in the following 11 areas in regard to ideology, method, and measure.

1. We should correctly handle the relation between deepening the reform and changing mechanism and improving enterprises' external environment. To do a good job in enterprises, the most important thing is mechanism. If we fail to change current mechanism, we cannot absorb and utilize external environment and give play to its role no matter how favorable it is, not to mention improving enterprises' internal management and tapping internal potential. A third of large and medium-sized enterprises in Shaanxi Province are well managed, such as the Shaanxi General Color kinescope Plant, the state-run Changling Machinery Plant, the Changan Instrument and Meter Plant, the Qinchuan Machine-Tool Plant, the Baoji Bridge Plant, the Xibei

state-run No. 1, No. 4, and No. 7 cotton mills. The key is that they have implemented the production and management operational mechanism which is guided by market, aimed at efficiency, and based on market competition. Because of this, to do a good job in large and medium-sized state-run enterprises, we must strive to change, by deepening the reform, enterprise mechanism to suit the planned commodity economic system.

2. We should correctly handle the relation between the difference of ownership and the revitalization of enterprises. Compared with enterprises of three capital sources, township enterprises, and collective enterprises in urban and rural areas, large and medium-sized state-run enterprises should be considered as advanced in ownership. Currently their vitality is temporarily lower than that of enterprises of three capital sources and that of township enterprises. The basic problem is not the ownership system. The basic problem is that they have not established a management system and operational mechanism suitable for the advanced system of ownership. In addition to the advantages of lower taxes and preferential policies, the crucial point is that enterprises of three capital sources and township enterprises can adapt to market competition and changes in external environment and that they are full of vitality and vigor. In these enterprises there is no "big communal pot," "iron rice bowl," and "iron armchair." All staff members and workers must rely fully on their ability and contribution. Therefore if we want to implement conscientiously the policy of managing well and revitalizing large and medium-sized state-run enterprises of the central government and the provincial CPC committee and government and really do a good job in and revitalize large and medium-sized state-run enterprises, we must establish and perfect as soon as possible management system and operational mechanism and fully arouse and develop the enthusiasm of the broad masses of staff members and workers.

3. We should correctly handle the relation between the master status of the working class and the deepening of enterprises' internal reform. Currently some enterprises suffer from declining efficiency and growing losses, but they still increase wages and distribute bonuses. This is in essence a phenomenon of corruption and a behavior of encroaching upon state property and profiting by other people's toil. To support the master status of the working class, we should first support reform, do a good job in our own work, fulfill our tasks with guaranteed quality and quantity, vigorously strive to increase efficiency, and provide reserve funds for socialist construction.

4. We should correctly handle the relation between the revitalization and "death" of enterprises. Along with the development of the economy, the rise of technological level, and the worsening of international and domestic market competition, most large and medium-sized state-run enterprises which can withstand the test will be able to do well and be revitalized. A few enterprises, whose products are backward, management is disorderly, efficiency is low, and stamina is poor, will be eliminated

during competition. This conforms to the objective law of development of things. Of course we should seek life from "death" and revive them after they die. We should adopt different policies. We should support those which can be and have the possibility of being revitalized and give them necessary input to make them develop even better and faster. As for those enterprises which cannot survive, we should help them seek life from "death." If they are really hopeless, we should put them to death without any hesitation so that we can use limited productive factors in more urgent and efficient areas.

5. We should correctly handle the relation between external and internal factors. Doing a good job in enterprises involve internal and external factors. External factors are conditions, and internal factors are foundations. The key to managing well enterprises lies in internal factors. The fact that under the same external conditions, some enterprises are managed well while others are not has fully proved this point. While the state has done its best to provide a good external environment, enterprises must look inward, strive to revitalize themselves, focus on relying on their own efforts, and enable themselves to get on the track of benign development. If they continue to wait instead of making progress and simply wish only for state tax and profit exemptions, there will be no future and opportunity for them.

6. We should correctly handle the relation between separating government functions and enterprise responsibilities and strengthening macroeconomic regulation and control. Currently the main point of separating government functions and enterprise responsibilities is to free enterprises from the yoke of administration, enable them to become relatively independent socialist commodity producers and managers, and solve such problems as various kinds of indiscriminate apportioning of expenses and indiscriminate inspections, appraisals, and administrative intervention. Real macroeconomic regulation and control are still necessary, however. Comprehensive economic departments at all levels and departments in charge of enterprises should focus enterprise macroeconomic regulation and control on the implementation of industrial policies, the coordination of reform measures, the supervision of enterprise income distribution, and the potential of capital increase. They should do a good job in necessary service and coordination to accelerate the normal development of enterprise production and management and create good reform conditions.

7. We should correctly handle the relation between the planned economy and regulation by the market. Enterprises are the cells of the economy. Along with the definite establishment and continuous improvement of the system of the planned economy, there will be fewer and fewer command plans. Production tasks and product sales will rely mainly on market. Because of this, enterprises should cater mainly to the market, go all out to move toward the market, and voluntarily adjust to

market competition in various areas such as product development and marketing, internal management, and the improvement of worker quality. Increasing their ability to compete on market is the source of enterprise vitality. It is very difficult for incompetent products and enterprises to survive. Enterprises will be eliminated if they fail to hold their ground in market. As a matter of fact, enterprises which are not competitive are doomed. Enterprises will not qualify as commodity producers and managers if they fail to see this point.

8. We should correctly handle the relation between the implementation of the contract system and reforms in other areas. The contract system of rural areas has solved the problems of land socialization and how to fully arouse the enthusiasm of the masses of peasants, pushing China's agricultural production to a new stage. However, when large and medium-sized state-run enterprises began to see the superiority of contract management during its implementation, they incurred censure and interference from various quarters, making it impossible for the contract management responsibility system to fully display its superiority. Judged from current situation, the contract management responsibility system is a very important meeting point for developing the superiority of the public ownership system and arousing the enthusiasm of individuals, collectives, and enterprises. Due to the unevenness of economic development in China, we have not yet found a method better than the contract system to handle the relation between the state and enterprises and between enterprises and individuals and to solve the problems of "big communal pot," "iron rice bowl," and "iron armchair." Because of this, while deepening reform, we must focus on improving and developing the contract management responsibility system, thereby creating a good condition for changing operational mechanism.

9. We should correctly handle the relation between technological progress and the improvement of the overall quality of enterprises. Judged from the angle of the commodity economy, whether or not the quality of an enterprise is improved is determined by its status in market competition, whereas the focal point of market competition is quality, price, and service competitions. To be able to do this, the most critical point is to raise the technological level of enterprises. Without advanced technology and equipment and new products to suit market needs, the overall quality of enterprises cannot possibly be improved. Many Western developed countries have competitive products because their enterprises' technological level is high. To do a good job in enterprises and increase their vitality, both the state and enterprises need to try every possible means and concentrate their energies on pushing technological progress while improving managerial level accordingly.

10. We should correctly handle the relation between forming enterprise groups and solving the problem of enterprises being "large and complete" or "small and complete." China, including Shaanxi, has quite a few large and medium-sized state-run enterprises which are

large and complete or small and complete. In other words they have similar technology and structure. This is a result of years of single-product planned economy. It is an important reason why current enterprise returns are low, production capacity is unused, and a large amount of investment is wasted. Because of this, the primary task of forming enterprise groups is to proceed from solving the problem of enterprises being "large and complete" or "small and complete," consider increasing the efficiency of the economy of scale and profits as our goal, and finally succeed in the optimized realignment of productive factors. We should not deviate from this goal, engage in "match-making," and use the method of administrative orders to casually put together some enterprise groups. Some enterprise groups in our province have suffered declining efficiency ever since their establishment and become "disorganized and complete." The basic reason is that they have deviated from the track of optimized organization.

11. We should correctly handle the relation between doing a good job in ideological and political work and strictly controlling plants. Enterprises' ideological and political work should serve to properly manage and revitalize enterprises and to increase economic returns under the prerequisite of adhering to the four basic principles. It should serve to fully arouse the enthusiasm of workers. We should not consider strictly managing plants simply as the problem of administrative departments and plant directors. We should consider strictly managing plants and strengthening management as a very important task of enterprises' ideological and political work. We should conscientiously do a good job. Otherwise, there will be only empty talks and no vitality.

Paper Criticizes Workers' 'Excessive Benefits'

92P100414 Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese N: 42,
21 Oct 91 p 16.

[Summary] Although allowing enterprises to retain more profits has yielded some good initial results, the continuing but unlimited practice has led to improper distribution of bonuses to workers and uncompensated transfer of state assets to the enterprises' subordinate collectives. Without systematic management and proper supervision from governing bodies, and lacking linkage between enterprise financial and other powers, greater profit retention has not altered the iron rice bowl distribution system. Instead, many state enterprises either cover up their losses and distribute excessive bonuses and goods to workers or transfer state funds and assets to their subordinate collectives. This prevalent tendency has hindered the capital accumulation necessary for enterprise development and has adversely affected enterprise efficiency.

An investigation of 275 enterprises conducted by a department concerned found that 78.6 percent had hidden losses at the end of 1990, amounting to 1.365

billion yuan—the equivalent of 1.04 times their operating funds and 1.8 times their reported losses.

Most of these losses were incurred after implementation of the contract management system. From 1988 to 1990, hidden losses have doubled every year. Nonetheless, many of these enterprises reported profits in their financial statements during this period. Enterprises conceal their losses for many reasons. A fixed quota is set for all enterprises under the contract system, enterprises are allowed to retain all profits above the quota, wages are linked to profits, and enterprises seek greater bonuses and benefits for their employees.

In addition, the phenomenon of transferring rice from the big to the small bowl is also quite widespread. Currently, almost all state enterprises are running one or more collective enterprises on the side. Of the 76 state enterprises being investigated, there is a total of 419 subordinate collectives—an average of 5.5 collectives per enterprise. The financial relationships between enterprises and their collectives are also indistinct, the state enterprise often transfers revenue to the collectives to evade taxes or use the collectives to launder funds used for state enterprises' unwarranted expenditures. This has resulted in losses for budgetary enterprises but profits for extra-budgetary enterprises and is one of the major reasons why large- and medium-sized enterprises have failed to respond quickly to revitalization efforts.

If the state tries to save these enterprises by giving them even more assistance, this will inevitably create a vicious circle, resulting in more benefits for workers but still no funds for development. Furthermore, distributing excessive benefits to enterprise workers has not only led to an ever increasing state budget deficit, it has also adversely affected the administrative cadres' morale, and this is not conducive to clean government.

State Enterprises Practice '1 Factory, 2 Systems'

92PJ0036A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 40,
7 Oct 91 p 10

[Summary] In recent years, a new enterprise organizational structure, referred to as "one factory, two systems," which allows state-owned factories to concurrently run collectively owned enterprises, has emerged as part of the enterprise reform process. This system permits public and collective ownership and their respective methods of management to coexist in the same state enterprise. The state sector of the enterprise is its main business and is run according to state planning, regulation, and management. The collective sector is run as a sideline business and is mainly regulated by the market.

The system was created on the basis of need and has helped resolve some of the contradictions existing in the current economic reforms. For instance, it has absorbed surplus labor resulting from enterprise reorganization; has raised labor productivity; has made use of idle fixed assets, estimated at between 20 to 30 percent of total

state assets; has expanded exchanges of workers, technology, and capital between the two sectors, and has become an important method for revitalizing large- and medium-sized enterprises.

An investigation conducted by the Ministry of Finance has discovered some loopholes, however. In the absence of a clear-cut division of property rights, certain collective enterprises have frequently been seizing state assets without due compensation. Profits in the state sector have thus been decreasing, while those in the collective sector have been increasing. Because the government applies different policies and tax rates to the state and collective sectors, the enterprises often arrange internal finances so they will pay the least amount of taxes. Furthermore, without proper financial discipline, some state enterprises may also use the collectives as their cash box and squander the money earned by the collective sector.

To ensure the healthy development of this system, the state should strengthen its financial control to prevent enterprises from shifting profits to the collective sector, should strictly differentiate the two types of ownership and prohibit uncompensated transfer of state property, capital, or other assets between the two sectors, and should establish collectives on the basis of state or local industrial needs to assist or supplement the state sector and produce sought-after goods that are in short supply.

PROVINCIAL

Bai Qingcai Inspects Shaanxi Natural Gas Field

92CE0216B Xian SHAANXI RIBAO in Chinese
17 Nov 91 p 1

[By Gao Xiangdong (7559 0686 2639) and Liu Dongming (0491 2639 2494): "Natural Gas Field Seen as Engine of Shaanxi Economy"]

[Text] Governor Bai Qingcai and Cheng Andong, secretary of the Xian CPC Committee and member of the provincial CPC Committee Standing Committee, inspected the development of the natural gas field in Yulin Prefecture and the Shenfu coal field in northern Shaanxi a few days ago. During their tour, they emphasized time and again that energy from the gas field in northern Shaanxi will be the new ray of hope that may yet revitalize the provincial economy. Organizations at all levels must seize the opportunity to develop the gas field and do a good job in providing related services, so as to accelerate the pace of economic development in northern Shaanxi and the province as a whole.

The world-class gas field in the Shaanxi-Gansu-Ningxia basin has attracted intense international and domestic attention. Located in the heart of the gas field are Jingbian and Hengshan Counties, both in Shaanxi Province. Starting next year, the state will select 20,000 workers from five major petroleum prospecting bureaus, including Changqing, Sichuan, Zhongyuan, Hanjiang,

and the Geophysics Prospecting Bureau, and despatch them to Jingbian to launch a mass campaign, at which point the development of the gas field in northern Shaanxi will get under way across the board. How to exploit and utilize the resources from the gas field as soon as possible has become a major event that is of great interest to the people of the province, which is why Bai Qingcai and Cheng Andong made a special trip to inspect prospecting at the natural gas field and study ways in which Shaanxi and Xian can quickly exploit the natural gas.

On 9-12 November, Bai Qingcai and Cheng Andong inspected the prospecting at Shaanxi Fields 12, 5, and 42 in Jingbian County, accompanied by Li Fengyang, secretary of the Yulin Prefectural CPC Committee, and Liu Zhuangmin, head of the Administrative Office. They also heard a report by the forward command post of the Changqing Petroleum Prospecting Bureau. Governor Bai Qingcai said excitedly, "Oil workers have exceptional combat capability that has contributed enormously to national construction. The contributions of the Changqing Bureau to the latest mass campaign in Jingbian are the focus of world attention." On behalf of the provincial CPC Committee and provincial government, Governor Bai Qingcai saluted the more than 5,000 prospectors who took part in the Jingbian campaign, and expressed his sincere thanks. He also expressed the hope that prospecting work would expand to the southern part of northern Shaanxi soon, thus paving the way for supplying Xian with gas, changing the mix of energy, and cleaning up the urban atmosphere. In addition, Governor Bai Qingcai instructed the appropriate provincial departments to rapidly complete the preliminary prospecting, design, and pre-construction preparatory work on the single-pipe gas pipeline from northern Shaanxi to Xian.

After listening to work reports by Yulin Prefecture and Jingbian County, Governor Bai Qingcai directed Jingbian County to undertake several small projects in the chemical industry during the gas testing period. He praised Yulin's proposal to launch a number of chemical industrial projects and said that the province would give strong support to turning Yulin into a new chemical industrial development area in the province. Governor Bai Qingcai stressed that organizations at all levels in Yulin must do their best to offer related services, and develop the tertiary sector revolving around gas field prospecting. The gas field's total land use costs should be raised comprehensively and put to good use to make the most of funds as a means for locating development. The masses should be guided to build a host of bases for growing commodity grain and non-staple food and peasants should be encouraged to develop the commodity economy and strengthen the collective. A number of enterprises that require limited investment but pay off quickly such as brick, tile, and cement plants should be put together using skilled technical personnel and experienced sales personnel selected from sectors like construction and material supply and tapping surplus rural

workers. Stable non-staple food bases should be built to ensure the availability of meat, eggs, milk, vegetables, and building materials. Services should be used to drive economic diversification and development of the tertiary sector in the countryside, as well as the development of township and town enterprises. Peasants should be assisted in shaking off poverty and becoming rich quickly so as to solve local financial problems.

Bai Qingcai inspected progress on the project in Yanhuangding in Dingbian County to divert waters from Huang He. Cheng Andong inspected the development of the Shenfu coal field and signed a summary of talks between Xian and Yulin Prefecture on economic and technical exchange and cooperation in Yulin. Cheng Andong said that with its vast size and rich resources, Yulin is a new ray of hope for revitalizing the economy of the entire province. Xian boasts formidable scientific and technical forces while Yulin leads the nation in resources. The city and the prefecture should further economic and technical cooperation and march forward together.

Zhang Boxing on Shaanxi Township Enterprises

92CE02164 Xian SHAANXI RIBAO in Chinese
17 Nov 91 p 1

[Article by An Li (1344 5461): "Raising Shaanxi Township Enterprises to a New Level"]

[Text] After almost a year of preparations, a four-day provincial seminar on township enterprise development strategy opened in Xian on 13 November. The meeting, proposed by Secretary Zhang Boxing of the Shaanxi CPC Committee, was organized by the Shaanxi Academy of Social Sciences and the province's Township and Town Enterprises Bureau. At the meeting, Secretary Zhang Boxing discussed issues relating to the development strategy of township enterprises in the province at a theoretical level. At the closing ceremony, Vice Governor Wang Shuangxi summarized the research theories and service reality.

After listening to the academy's "Shaanxi Township Enterprise Development Strategy" and the bureau's "Annual Development Plan and the Eighth Five-Year Plan," Zhang Boxing said that township enterprises in the province experienced a breakthrough during the Seventh Five-Year Plan, giving economic and social development in Shaanxi a shot in the arm. For one thing, township and town enterprises have strengthened the province's economic muscle. Prior to the Sixth Five-Year Plan, state investment in the province exceeded the national average by almost 4 percent during successive five-year plans. During the Sixth Five-Year Plan and Seventh Five-Year Plan, that is, after the nation embarked on reform and opened itself to the outside world, state investment in the province fell almost 30 percent below the national average. It was in this unfavorable set of circumstances that Shaanxi launched economic construction. The result: Output rose 1.42-fold in

Shaanxi compared to 1.32 fold nationwide. Thanks to township and town enterprises, among other things, the province has been able to keep pace with the nation in output despite a drop in investment level. Judging from the data of the Shaanxi Academy of Social Sciences on the development strategy, the number of township enterprises rose from 340,000 in 1985 to 610,000 in 1990, higher than the average national growth rate. Their assets increased from 1.4 billion yuan to 5.6 billion yuan and their output value rose from 4.9 billion yuan to 15 billion yuan, up 24.8 percent, more or less keeping up with the national average of 23.1 percent. One quarter of the peasants' per capita net incomes came from township and town enterprises. Second, the development of township enterprises has been a powerful boost for agricultural production. During the Seventh Five-Year Plan, funds turned over by village collective enterprises alone to village governments and village committees to aid agriculture amounted to 659 million yuan, while 816 million yuan in after-tax profits were spent directly on rural construction, equivalent to 53.67 percent of the funds allocated by all finance agencies in the province to agriculture between 1986 and 1989. Third, township and town enterprises have absorbed a large number of surplus rural workers, including 690,000 in the Seventh Five-Year Plan, or 44.3 percent of all new entrants to the rural labor force. By doing so, township and town enterprises have been enormously important in easing pressure on villages and, in particular, on cities to provide jobs. Fourth, enterprises have played a critical role in stabilizing the rural front. Without putting the rural house in order, there could be no political stability.

On the other hand, there are some problems in the development of township and town enterprises. First, the important role and functions of township enterprises are not sufficiently understood. Second, development is unbalanced. Development has been lagging in southern and northern Shaanxi, where township and town enterprises account for just 21 percent of the total output value of all township enterprises in the province. Third staying power is insufficient. After expanding 86 percent in 1986 and 89 percent in 1987, fixed assets investment grew just 25 percent in 1988, 21 percent in 1989, and 10.6 percent in 1990. These numbers are sounding the alarm for us. Fourth, people do not think in terms of relying on science and technology to develop township enterprises. Fifth, management has failed to keep pace with the demands of development.

Discussing ways to accelerate the pace of township and town enterprise development, Zhang Boxing noted that in a certain sense their development is a global trend among all developing nations. With their own special characteristics, Shaanxi's township enterprises are different from those of other countries. Most of China's township enterprises are located in villages or towns and absorb surplus workers locally. This is a special feature of China's township and town enterprises. If China is to achieve its second strategic objective, it cannot do without the development of township and town enterprises. Now that township and town enterprises in

Shaanxi have entered the stage of development, we should put equal stress on development and improvement, with emphasis on the former. Our economic development philosophy first calls for a positive perpetuation of the process of reproduction within Shaanxi. In other words, we must develop and strengthen regional economies. First, there must be successful cooperation within the several economic regions in central China. Second, using the central Shaanxi plain, centered on Xian, as a base, we should build up a number of industrial bases in the province and gradually create a complex of cities. Cities like Baoji, Xianyang, Tangchuan, Weinan, and Hanzhong must be developed. The energy base in northern Shaanxi and the mining base in southern Shaanxi must be put on a sound footing. Second, bring about economic division of labor in reproduction with other provinces. The province is now selling large quantities of primary products and other goods with low added value while buying an excess of manufactured products with high added value. That must be changed; the outflow of wealth must be stemmed. Third, open up to the outside world. We must put an end to economic isolation and do our best to develop an export-oriented economy and participate in international division of labor. Fourth, bring about balanced development between the several major industries. Continue to adjust the industrial structure aggressively in accordance with the national industrial policy.

Regarding future development of township and town enterprises, Zhang Boxing put forward some specific demands. First, township and town enterprises must develop at an appropriate pace. The plan proposes a growth rate of 12.3 percent, while urging us to shoot for 15 percent. These rates are reasonable and realistic, not overly ambitious. We must consider the growth rate with their strategic position in mind and do our best to aim for 15 percent. Second, party and government leaders at all levels must take charge of their development personally and put it on their agendas. In particular, they must make an earnest effort to help resolve the problems hampering enterprise development. Funds should be raised through multiple channels. In particular, there must be no more wavering from the share-holding cooperative system. Wenzhou, for instance, must concentrate on developing share-holding cooperative enterprises. Third, policies must be implemented in full diligence. The 10 policies formulated by the provincial CPC Committee and provincial government must be implemented one by one, article by article. Comrade Shuangxi is in charge of this task. The departments have no right not to carry out the policies of the provincial CPC Committee and provincial government. People who refuse to implement them must be held liable. Fourth, we must vigorously improve S&T management. Fifth, we must adjust the industrial structure assiduously. Put an end to the natural economy, boldly optimize the leading industries, and open to the outside world. Sixth, we must emphasize the priorities. That is, concentrate on priority enterprises, priority trades, priority industries, and leading products, and form key development areas. Finally,

Zhang Hong called on all trades and professions to take an interest in township and town enterprises and support their development. That way it will not be long before those enterprises take off.

At the closing ceremony, Vice Governor Wang Shuangai said that many insightful opinions and suggestions had been aired or put forward at the meeting, which clearly will help guide us, from a high theoretical plane, as we formulate our long-term development strategy, determine what must be done in the Eighth Five-Year Plan and even in the next decade scientifically and realistically, and expedite the sustained, balanced, steady, and healthy development of township and town enterprises in the province. Referring to the situation facing township and town enterprises and their mission, Wang Shuangai said that the Eighth Five-Year Plan and the coming decade are a critical period in Shaanxi's economic development. Can the Shaanxi economic and social development plan be fulfilled as scheduled? Township and town enterprises have a vital, historical role to play. By examining in depth the development strategy of township and town enterprises in the 1990's and their overall planning, this meeting provides a scientific basis for correct policymaking by the provincial CPC Committee and provincial government. Under the province's 10-Year Plan, their gross output value is projected to reach 49.5 billion yuan (in 1980 constant prices) by the year 2000. The strategic report says we should shoot for 90 billion yuan. Why? The first reason has to do with overall economic development in the province. Shaanxi's gross value of industrial and agricultural output is expected to reach 83 billion yuan by the end of this century, a goal that would be unattainable without township and town enterprises. Second, projected increases in peasants' incomes. By the end of this century, the per capita net income among peasants is expected to hit 1,000 yuan, which also would be beyond reach if we leave out of account the earnings of township and town enterprises. Third, our surplus rural manpower is projected to exceed 3 million people in a decade, most of whom would find a job in a township enterprise where their skills would be put to proper and effective use. Fourth, township and town enterprises would help strengthen agriculture as the foundation. To increase grain production, we need good policies, science and technology, and investment. But neither the dissemination and application of science and technology nor the search for funds in aid of agriculture can do without the material base provided by township and town enterprises. Moreover, we should see that there is still a wide gap between this province and other developed provinces and areas. Thus our township and town enterprises must develop at a faster pace and do a little better in the 1990's.

To achieve the development objectives set for township and town enterprises, Wang Shuangai demanded that we concentrate on doing a good job in these areas from now on. Adjusting the industrial structure and expediting the optimal reconfiguration of capital goods, deepening

enterprise reform and revitalizing the operating mechanism, improving enterprise management, raising profitability, and doing everything possible to make the profitability indicator of the priority enterprises reach the national level, and intensifying lateral cooperation and opening up to the outside world. Not only must township and town enterprises continue to operate jointly and cooperate with large and mid-sized state enterprises, but they must also become more motivated to participate in international economic activities and trade, set their sights on coastal areas and the international market, and use their favorable conditions to attract foreign investment and import advanced and applicable new technology and new equipment from abroad in an all-out bid to sell more products overseas. Scientific and technological advances must be accelerated and enterprise quality improved.

During the closing ceremony, Wang Shuangai also called for better guidance and services for township and town enterprises. He said: "In the past few years, leaders at all levels in the province have consistently tackled township and town enterprises as a big part of the revitalization of the Shaanxi economy. Many prefectural and county comrades in charge have worked very hard. Developing township and town enterprises is something all interested sectors and quarters in society should get involved in together. The comprehensive departments should incorporate their planning, production, and circulation into their comprehensive management objectives based on the scope of macroeconomic management, making sure that the objectives are realized at each level. All trades and professions should discard 'sectarianism' and think in terms of all industry, supporting the development of township and town enterprises equally without discrimination. Basing themselves on service, finance, banking, tax, industry and commerce, labor, and legal affairs agencies must improve management and strongly support township and town enterprises." Wang Shuangai expressed the hope that research organizations at all levels, colleges, universities, and social science workers make use of the experience and results of this meeting and continue to work as one to make theoretical research on township enterprise development a success, never ceasing to apply scientific theories to guide their development.

Hunan's Downward Economy, Causes, Remedies

92CED1694 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 9, 1 Sep 91 pp 41-43, 48

[Text] In recent years, economic efficiency in Hunan Province has gone from bad to worse, which has elicited concern from all walks of society. This article attempts to explore adequate ways to improve economic efficiency, beginning with the facts of the deteriorating economy of Hunan Province.

I. Current Situation

A. There has been serious deterioration in industrial economic efficiency. In 1990, the budgetary industrial enterprises' profit tax revenues decreased by 44.3 percent compared to last year, the deficit scope ranged up to 40.1 percent, and the total deficit amounted to 594 million yuan. In the first quarter of 1991 as compared to the same period of 1990, the budgetary industrial profit tax revenues decreased by 43.5 percent, realized profits decreased by 166.45 percent, and profits turned over to the state decreased by 182.88 percent. Moreover, enterprises running a deficit amounted to 936, an increase of 14.42 percent, and the deficit amounted to 228 million yuan, an increase of 64.84 percent, compared to that of the same period last year.

B. Peasant per capita net income decreased annually on a national scale. Peasant per capita net income is an important index to measure rural economic efficiency. In 1980, peasant per capita net income in Hunan was 219.7 yuan, 28.4 yuan higher than the national per capita net income of 191.33 yuan, occupying seventh position among various provinces, cities, and districts in the nation, and higher than that of its neighboring provinces including Guangxi, Sichuan, Guizhou, and Hubei. After 1981, national growth accelerated, but Hunan's rate of growth declined every year. Its rank dropped to 10th position in 1981 and to 15th in 1989. In 1990, national peasant per capita net income was 630 yuan, an increase of 29 yuan over the previous year, but Hunan's peasant per capita net income was only 545.69 yuan, a decrease of 12.65 yuan over the previous year. In reality, there has been a continual three year decrease in peasant per capita net income, still a decrease compared to the previous two years, even when price factors are discounted.

C. Financial deficits increased. A continual downward spiral in industrial and agricultural production efficiency caused a decrease in financial revenues. In 1990, financial revenues in Hunan totaled 7.007 billion yuan, 143 million yuan short of the budgeted amount. Expenditures were 8.008 billion yuan. The financial deficit for the whole province was approximately 150 million yuan. In 1989, 43 counties suffered financial deficits, 61 did in 1990. In addition, five cities also experienced deficits, and the province as a whole experienced for the first time a deficit of 70 million yuan.

II. Causes

A. Low-efficiency agriculture weighs too heavily on the overall economy. For example, in 1989 the proportional breakdown of the national primary, secondary, and tertiary industries was 28.8 percent, 46.7 percent, and 24.5 percent respectively; those of Hunan were 36.6 percent, 37.1 percent, and 26.3 percent respectively. Its low-efficiency agriculture was 9.6 percentage points higher than the nation's. Hunan is an agricultural province. Its agricultural products consist mainly of grain, making a considerable contribution to the nation. However, Hunan's economic efficiency was low, due to the

strict price controls on grain maintained by the state. Particularly since the market slump in 1990, agricultural products consisting mainly of grain were heavily overstocked, and the reversal in the purchasing and selling situation posed a severe burden. Simultaneously, agricultural capital goods prices increased at a rate higher than the national average. In 1989, these prices in Hunan increased by 24.4 percent, 5.5 percentage points higher than that of the nation. Moreover, the circulation of agricultural products was not as flexible as in other provinces; in addition the population increased too rapidly. These are the causes for low economic efficiency in Hunan. Furthermore, Hunan's secondary and tertiary industries in the countryside did not develop as fast as in the other provinces, due to weaknesses in the commodity economy consciousness and adherence to the traditional production structure. Cash crops account for too small a ratio in the rural economic structure. A diversified economy, and township and town enterprises developed slowly. In 1989, the output value of Hunan's grain crops accounted for 73.3 percent of the total crop industry, 8.6 percentage points higher than that of the nation. The foundation of town and township enterprises was weak. National average income from town and township enterprises was 278 yuan, but that of Hunan's was only 92 yuan. In 1980, agriculture in Hunan accounted for 78.4 percent of the total economy, and industry accounted for 14.43 percent; national agriculture accounted for 68.66 percent, and industry 19.48 percent. By 1989, Hunan's agriculture still accounted for 59.66 percent, while national agriculture decreased to 45.13 percent. Hunan rural industries still accounted for 25.37 percent, while the ratio of national rural industries increased to 40.65 percent. The percentage of Hunan rural industries was not only lower than that of Shandong and Zhejiang provinces, but was also lower than Jiangxi Province.

B. Industry belongs to the low efficiency structure. Comparing industry to agriculture, industry has a relatively higher efficiency. Nevertheless, Hunan's secondary industries were 9.6 percentage points lower than that of the nation, causing a relatively lower economic efficiency. Within industry, heavy industries which generated a low profit-tax accounted for 55.9 percent, 4.5 percentage points higher than the nation, second only to such heavy industry based provinces as the three Northeast provinces and Shanxi Province. After the budgetary energy resource and transportation funds of Hunan's businesses were turned over to the state, the per capita remaining profits decreased annually, from 441 yuan in 1988 to 335 yuan in 1989, and down again sharply to 94.7 yuan in 1990. The majority of businesses were sluggish, and some had difficulty even carrying on simple production, not to mention economic efficiency.

C. The input/output rate was low. To begin with, input levels tended to be high. (1) In the Seventh Five-Year Plan period, the rate of material consumption of the social gross output value increased from 52.6 percent in

1985 to 58.3 percent in 1989, of which agriculture increased from 26.7 percent to 31.9 percent, and industry from 67.4 percent to 69.4 percent. 2) The use of funds increased. In the first four years of the Seventh Five-Year Plan, various bank loan balances increased from 18.601 billion to 42.829 billion yuan. The average annual increase was 23.2 percent, but the annual growth of gross output value of national production was only 7.3 percent in the same period. In Hunan's independent accounting industrial units owned by the whole people, the amount of quota floating funds used for every 100 yuan of output value increased from 26.61 yuan in 1985 to 27.38 yuan in 1989. The circulation period of quota floating funds slowed from 97 to 106 days. Second, the output level tended to be low. 1) The increase of gross income with every 100 yuan accumulated dropped from 6.7 yuan in 1985 to 32 yuan in 1989. 2) The realization of profit tax with every 100 yuan decreased in enterprises owned by the whole people, except for transportation and postal services. Among these, industry suffered a drop from 25.17 yuan in 1985 to 22.22 yuan in 1989, and agriculture dropped from 10.93 yuan to 7.69 yuan. 3) The profit-tax rate based on output value decreased. The profit-tax rate based on the output value from industrial enterprises which are completely independent as accounting units decreased from 19.3 percent in 1985 to 14.46 percent in 1989. The profit-tax rate based on total funds decreased from 22.53 percent in 1985 to 18.84 percent in 1989.

D. Excessive burdens restrained an increase in efficiency. From the standpoint of enterprises, the state-collected tax revenues continuously increased in recent years. In 1978, only two types of tax existed. In 1984, after the second substitution of tax for profits, the number of taxes increased to seven, by the end of 1989, the types of taxes alone rose to 20, and including every type of additional expense apportioned by the state, taxes and fees exceeded 60 types. These burdens are primarily due to: 1) China's intermediate circulation tax is different from some other countries' tax which is tax included in the price. This tax alone drains 50-60 percent of an enterprise's net income. 2) The present tax contract base number was established originally when profits were being turned into taxes, including the income tax levied on state enterprises which amounts to 55 percent of realized profits. 3) Within the tax contract base number is also included the adjustment tax levied on enterprises on the basis of "one enterprise one rate" which is between 5-25 percent. 4) The energy and transportation funds the state collects amounts to 15 percent of the enterprises remaining profits. 5) Since 1989, the state increased by 10 percent the tax on enterprises' profit for budget adjustment funds. 6) When remaining profits are used, they are subjected to other additional taxes, including construction taxes, bonus taxes, and wage adjustment taxes. 7) The state, according to different needs, assigns to enterprises state treasury bonds, special construction bonds, and other bonds to sell. 8) High interest rates. In 1989, the average interest rate of Hunan's budgetary enterprise floating fund loans

was 12.1 percent, 2.6 percent higher than the tax rate on fund profits with similar specifications. In 1990 the loan interest rate decreased by 1.26 percent, but it was still higher than the fund profit-tax rate. 9) There were too many fund raisings, fee collections, and appropriations undertaken by various governmental levels, departments and work units. Fees collected by municipal governments numbered a dozen or more, including afforestation fees, joint public security fees, urban population increase fees, environmental protection fees, family planning fees, trade network fees, and rat extermination fees. According to some estimates, for each year unreasonable expenditures imposed upon enterprises by various governmental departments and units through arbitrary apportionings, arbitrary collections and arbitrary penalty fees accounted for approximately 7 percent of enterprise retaining profits.

The burden on peasants also increased annually to an unbearable extent. 1) State taxes increased. In 1989, Hunan peasants paid 1.61 billion yuan in taxes, 31.14 yuan per person, an increase of 152 million yuan over 1988, a 28 percent increase. 2) There was an increase in united fund raising and collective withholding of retained profits. In 1989, this amounted to 1.889 billion yuan in Hunan, an average of 37.52 yuan per person, an increase of 173 million yuan over 1988, an increase of 10.8 percent. 3) Social burdens increased. Unreasonable fee collections and apportionments by certain departments amounted to about 30, sometimes up to 40 or 50. According to a typical investigation, these fees generally amounted to 20 yuan per person. 4) Price parities between industrial and agricultural products were not equitable, further increasing the peasant's hidden burden. In 1989, peasant income for the entire province increased by 1.202 billion yuan, due to a 6.8 percent increase in state procurement prices of agricultural sideline products. However, the price increase in industrial products supplied to peasants by the state ranged up to 20.9 percent, in which capital goods prices increased by 24.4 percent. As a result, peasants in the entire province paid 4.257 billion yuan more. When the gains and payments were balanced, the peasants paid an additional 3.055 billion yuan, some 60 extra yuan per person.

F. There were many holes in economic management. Nowadays, the phenomena of high expenses and low efficiency, high input and low output, and high consumption and low efficiency are prevalent in the areas of production, construction, and circulation. The loss in financial income is enormous. In certain districts and units, finance is in a state of disorder, supervision and management is lax, and budget controls are weak. Problems of violating financial and economic disciplines frequently occur: tax evasion, retention of profits that are intended for the state, misuse of state funds, extravagance and waste are still serious problems. Due to the rapidness of the financial budget income, when efficiency worsens and revenue is lost, it is inevitable that tax rates on enterprises will increase to maintain a balanced state budget. Direct loss of economic efficiency resulted in

indirect loss of economic efficiency, such a situation became a vicious circle and further worsened economic efficiency.

III. Remedies

A. Strengthen macroeconomic analysis, research and instruction in economic efficiency. Party committees and governments at all levels ought to stress the task of strengthening macroeconomic analysis and study of economic efficiency. First, establish and perfect the analysis system on macroeconomic efficiency, understand the dynamics of economic efficiency in a timely manner, and provide a reference for measures to improve economic efficiency. Second, get control of the core of economic planning. Economic planning should not generally aim at planning economic development goals, but rather more importantly it should regulate important ratio relationships within trades and regional development by taking raising total economic efficiency as the starting point. For instance, select key points and treat them more favorably according to state industrial policies, carry out planned regional division of production, and avoid as much as possible such phenomena as structure identification, highlight the characteristics of the geographical location and resource advantages of small regions, help establish and perfect economic-technical cooperative relationships and order for normal competition between regions and trades. Third, under the guidance of state general policies, formulate economic stimulating policies and measures in a timely fashion, proceeding according to one's own real situation. Fourth, set up some hard economic efficiency indices and carry them through at all levels and all departments, organize various forces to carry out a general war for "quality, variety, and effect", unify and regulate movements, and form the advantageous position of an integrated whole that achieves better economic efficiency. Fifth, while more self-determination rights should be given to production and management, simultaneously they should be given specific instructions on how to improve economic efficiency. Sixth, place emphasis on tapping new resources and economizing on expenditures, control mechanisms should be tightened to prevent economic efficiency losses and plug loopholes.

B. Enhance the quality of productive forces. Pay attention to the optimal disposition of key productive forces, to form the advantageous combination of productive forces with high efficiency, low expense, high quality, and low cost, overcome the idea prevalent among enterprises which seeks to make one's own enterprise either large and comprehensive, or small and comprehensive, and also the idea of enjoying acting in a major role and disliking playing a minor role in terms of the importance of one's enterprise, and make every effort to change the situation in which "large enterprises are weak and small enterprises are not specialized." Rationally adjust enterprises' organizational structure, rely on large and medium enterprises as the backbone, optimize enterprises' integration through various methods, and organize and develop enterprise groups, and form the scale effect of intensive management. First, push forward

enterprise unification by using new or additional investment as the catalyst. Second, bring along enterprise unification by taking major products as leaders. Third, organize enterprise unification with the goal of developing new products. Fourth, promote enterprise unification by using the market as an intermediary. In rural areas, the main task is to perfect "dual-level operations," and form the combined advantage of the collective and family dual-level means of production. In perspective, we must fully develop the role of science and technology as the number one productive force. Popularization and application of new scientific and technological achievements usually will produce enormous economic and social effects. In the future, along with scientific and technical development, the position of science and technology among the essential elements of productive forces will be more and more important. As long as great efforts are given to transform achievements in scientific research into productive forces, economic efficiency will surely be increased to a great extent.

C. Devote major efforts to adjusting the economic structure. The best economic and social efficiency can be obtained by optimizing overall structure on the basis of Hunan's actual situation. 1) Rationally adjust the structure of the three major industries. The strategic points in development must be agriculture, energy, transportation, communication, raw-material industries and value-added processing industries. On the basis of steady development of the primary industries can the development of secondary and tertiary industries be accordingly accelerated. 2) Rationally adjust the set-up of rural production. Currently, Hunan's agricultural labor force accounts for 73.3 percent of its total labor force, eight to nine percentage points higher than the national average. Moreover, the surplus of labor in the countryside grows larger and larger, while arable land shrinks. Therefore, the situation of having 50 million peasants jammed into a limited area of arable land to eke out a bowl of rice has to be changed under the guidance of the policy, "never slacken grain production, and actively diversify the economy." First, adjust the set-up of rural production, increase the ratio of secondary and tertiary industries, particularly that of rural industries, and accelerate the development of town and township enterprises. Second, adjust the internal structure of farm products, and make every effort to develop cash crops and animal husbandry and marine products industries, while steadily developing of grain production. Optimize variety structure, and increase the ratio of name-brand, quality, specialty, new and rare products. Third, pay attention to developmental agriculture and expand production areas. Make major efforts to develop uncultivated mountains, hill-sides, idles and water areas, as well as winter agriculture and cottage industries. Fourth, reinvigorate the circulation of rural commodities and develop the rural social services system. 3) Rationally adjust the structure of industrial products. Reduce the production of primary products, long-term slow-selling products, and high energy consumption products, develop highly processed

products and value added products, and increase marketable products. Make efforts to change the old pattern in which primary products account for 70 percent of the value of various enterprises' output, and in which heavy industry served itself and consumed excessive energy and raw materials. 4) Rationally adjust the investment structure. First, based on the principle of improving the stock structure adjustments according to incremental adjustments, cut back on capital construction investments and increase investments on goods in high demand, protect key projects, tap more the potential of existing enterprises and start fewer projects. Second, the emphasis of capital construction is to be placed on basic industries that relate to the total development of the economy. Third, expand the scope of technical transformation which consist mainly of intensive forms of enlarged reproduction, and target projects that lack raw materials, value added processing production, industrial groups' development projects, adopt new technological processes, new technology, and new materials, energy conservation and cost decreases, and foreign exchange earning export projects.

D. Improve the external environment. Macroeconomic management departments, enterprises and rural areas all must adopt strict measures to alleviate the burdens mentioned above, firmly stop the above mentioned "three arbitrariness", adopt the policy of "turn on the water to breed the fish," and give enterprises and peasants a respite, so as to improve economic efficiency, and reproduction capability of production and management.

Economic Efficiency of Guangdong Enterprises

HK1811135091 Guangzhou NANFANG RIBAO
in Chinese 10 Nov 91 p 1

[By reporter Liao Chengye (1675 2052 2814) and correspondent Sun Xiong (1327 7160). "Key to Financial and Trading Enterprises Extricating Themselves From Decline in Economic Results Lies in Deepening Reform and Improving Mechanisms"]

[Text] How can financial and trading enterprises in Guangdong Province extricate themselves from decline in their economic efficiency? The practice of many advanced enterprises shows that the solution lies in intensifying reform, so operational and management mechanisms of enterprises can truly become flexible and effective in order to enliven and promote commodity circulation.

Judging from the situation of financial and trading enterprises in the entire province, the activities during the "quality, variety, and efficiency year" have been effective. Much work has been done regarding service quality enhancement, product variety increase, and market expansion. This has enlarged the scale of market circulation. From January to September this year, the accumulative total value of social commodities reached 61.9 billion yuan, an increase of 16.7 percent over the same period last year. However, a prominent problem is

that their economic results are still undesirable, and their commercial profits only reached 120 million yuan, 107 million yuan less than the same period last year. The deficits of supply and marketing cooperatives became increasingly serious, and reached 110 million yuan. Some 40 percent of these cooperatives suffered losses. Grain sector also suffered losses in a sum of 550 million yuan, and the average loss in fair-price grain and edible oil was 550 million yuan. However, a large number of financial and trading enterprises have scored better economic results. Their experiences have shown that the key to enhancing economic results of enterprises lies in deepening the circulation system reform.

Why do peasants in some localities not dare to develop commodity production vigorously? It is mainly because they are not well-informed, and the channels for circulation are clogged. Therefore, they fail to increase their incomes despite the rise in production. This has reflected the fact that our rural circulation channel does not conform with the development of commodity production. Therefore, party and government leadership in various localities should further strengthen their leadership over circulation field, and adopt measures to establish a multilevel, multichanneled, and multiform circulation service system. At present, the focus of the reform of the internal management system is on further overcoming the practice of "eating from the same big pot" and the "iron rice bowl." This will ensure unrestricted operation, labor arrangement, and distribution to seek a better solution for development of enterprises which are affected by clogged circulation channels and heavy economic burden.

Basic management of financial and trading enterprises can play a constraining role in circulation and efficiency. After the occurrence of weak market last year, many enterprises paid attention to operation at the expense of management. As a result, their operations were ineffective, and their economic results fell. For example, shortage of funds and low economic efficiency is a common and prominent problem. Apart from macroeconomic reasons, insufficient reform inside enterprises is also a reason. For example, phenomena such as blind purchase and marketing (defects in work), purchasing and marketing based on "commissions" (unhealthy work style), overstocking of products, and default in payment cannot be completely improved. It has been learned that in the reform of circulation system Foshan City Commercial bureau has noticed such trends, and promptly proposed a guiding principle of "placing equal emphasis on operation and management." It has also adopted a series of measures to increase the efficiency in using funds. During the first half of this year the average circulating funds held up was 17.2 percent lower than the same period last year. The amount of tax and profits in per 100 yuan circulating funds accounts for 20.9 percent. This practice has shown that reform in funds management can help increase economic results. Therefore, to solve the problem of funds, we should, on the one hand, draw and replenish circulating funds of enterprises in

accordance with the relevant rules and regulations, and in a planned way. On the other hand, we should establish a management responsibility system of funds by objective to promote operations and marketing, and enliven fund circulation.

Fully arousing the enthusiasm and creativity of workers and staff members is a fundamental motive force for enhancing economic results. With the development of the situation, it is necessary to reform the personnel, recruitment, and distribution systems in enterprises. Ideological and political work should also be strengthened. The Jianghai Electronics Joint-Stock Company Limited has undergone an effective trial in this regard. Through the reforms in cadre, distribution, labor, and ideological education systems, it has introduced competitive and incentive mechanisms in order to arouse the enthusiasm of its workers and staff members. Now all members of this enterprise have joined in and have strictly enforced discipline. Workers and staff members vie with one another to become "outstanding workers" so they can make more contributions. The efficiency of this enterprise has reached an advanced level of similar enterprises throughout the country.

Financial Levers Stressed in Enterprise Efficiency

HK2111053691 Guangzhou NANFANG RIBAO
in Chinese 11 Nov 91 p 1

[By reporter Feng Bingzhong (7458 3521 0112), correspondent Shi Weixin (0670 0251 0207): "Financial Lever Plays Important Role in Enhancing Economic Results of Medium, Large State-Owned Enterprises"]

[Text] Since the beginning of this year, Guangzhou City has brought the role of the financial lever into full play and offered good services to medium and large state-owned enterprises, thus effectively boosting production. From January to September, the city's total industrial output value was 35.832 billion yuan or an increase of 21.6 percent over the same period last year. Initial achievements have been scored in the drive to turn losses into profits among state-owned industrial enterprises. During the January-September period, profits rose 71.51 percent while losses dropped 18.4 percent.

The main measures adopted by Guangzhou in this regard are as follows.

—Striving for a balance in fund use and adopting a special policy for medium and large enterprises in terms of loans. From January to September, the city's industrial loans increased 930 million yuan, of which 73 percent was used in supporting medium and large enterprises, with stress on the production of 25 competitive products, 1,000 new products, and more than 6,000 varieties.

—Further implementing the credit policy of dealing with each case on its merits and supporting the superior while limiting the inferior. Great efforts were made to

support those enterprises able to turn out better economic results in increasing their production funds and priority enterprises in merging enterprises with poor economic results. At the same time, efforts were also made to help enterprises with meager profits or beset with difficulties to solve their problems and turn losses into profits. The city stopped providing loans to enterprises which were hopeless about turning losses into profits and ordered them to close down, suspend, merge with other enterprises, or change their lines of products.

—Actively supporting the technological transformation of medium and large state-owned enterprises. From January to August, the increased amount of loans for technological transformation was the same as last year but payments for additional loans increased 190 percent. Financial departments also offered more trust leasing services and actively leased equipment to medium and large enterprises. At the end of September, loans in this regard totaled 137 million yuan or 43 million yuan more than last year.

—Actively helping enterprises clear "debt chains." By 24 October, the city had received 438 ICU's worth 239 million yuan, paid 425 ICU's worth 209 million yuan, and cleared "triangle debts" totaling 448 million yuan, thus attaining the target of using one yuan to clear every 3.32 yuan debt.

—Actively developing financial markets and raising funds for the development of medium and large state-owned enterprises. Since the beginning of this year, 85 "double guarantor" (shuang bao 7175 0202) enterprises have been authorized to issue bonds to society or raise funds among their internal departments and about 300 million yuan has thus been pooled. On the other hand, energetic efforts have also been made to carry out a shareholding system on a trial basis in more than 10 selected enterprises where conditions are ripe.

—Creating a good environment for the development of medium and large state-owned enterprises in terms of foreign exchange management. Priority was given to the authorized use of foreign exchange by medium and large state-owned enterprises to import equipment, components and parts, and raw and semifinished materials. As far as the allocation of the enterprises' retained foreign exchange is concerned, a method of advance allotments has been introduced, thus creating good conditions for them to fully use their funds for circulating purposes.

Private Bus Companies Compete With State Firms

92CED1R2B Xian SHAANXI RIBAO in Chinese
21 Oct 91 p 1

[Article by staff reporters Zhang Xuebin (1728 1331 2430) and Liu Minan (0491 3046 1344): "Private Ticket Lowers Price Again, State Enterprise Stresses Quality of Service"]

[Text] On 20 October the great price reduction war between private and state-run bus companies on Route 59 entered its sixth day.

On the morning of 20 October, Xianyang Square was crowded with people. All buses operated by individual enterprises put up a new sign which read "5 jiao per ticket, leaving every eight minutes." Firecrackers were set off whenever a bus drove away. A brass band made up by about 10 people was playing on the side. State-operated buses on the West side of the square did not lower their price, and each ticket still cost 7 jiao. State-run companies, however, carried out quality service propaganda activities in the square. Four tables were put in a row. Five female employees were continuously handing out propaganda materials to and soliciting opinions from the masses. A propaganda car was broadcasting the contents of a quality service contest. We could tell that state-run companies emphasized winning over passengers with high-quality service.

Since individually-run buses lowered their price again, their passenger volume has picked up. Since Sundays are the peak period of transport, most state-run buses were filled to capacity. Even if a few buses had fewer passengers, they still left at five-minute intervals.

The reaction of the masses to the one week-old great price reduction war varied. Some said that competition is a normal phenomenon, others worried that it may cause problems. A factory cadre told the reporters "It is reasonable for the state to properly raise the price of passenger transportation. Lowering price in a fit of pique like this, the state will eventually come to grief. The use of gas and the vehicle will cause serious waste and neither side will win. There is nothing good about it. The departments concerned at provincial and municipal levels should come out to take care of this thing."

The daily passenger flow volume between Xianyang and Xian is about 8,000 to 10,000. Calculated on the basis of this figure, some 30 buses will be sufficient, and they can be run at five-minute intervals. This route is currently crowded with over 70 large and small buses (including some 20 state-operated and some 50 individually-operated buses). Transport capacity is more than twice as much as transport volume. Could this be the main cause of the great price reduction war?

'Great Ticket Price Reduction War' Analyzed

Q/C E0182C Xian SHAANXI RIBAO in Chinese

* Nov 91 p 2

[Article by Liu Minan (0491 3046 1344) and Zhang Xuebin (1728 1331 2430): "Thoughts on the Great Ticket Price Reduction War"]

[Text] The recent fare war between state-run and individually-run bus companies on Route 59 from Xian to Xianyang has attracted great attention from the media. Although the great ticket price reduction war came to an

end after the Xianyang municipal government stepped in, it raised a question that is worth pondering: How did it happen?

The highway transportation industry of Shaanxi Province has made considerable progress in recent years. The "difficulty of getting transportation" has been alleviated, which is a good thing. Due to uneven development, however, transport capacity has far exceeded transport volume and private vehicles have far exceeded state-operated vehicles on some routes. The great price reduction war which occurred on Route 59 is precisely the result of having more vehicles than passengers characterized by blind development, multi-company management, and a lack of strict control.

How do we solve these problems in highway passenger transportation? The case of Route 59 can provide some helpful hints.

To develop highway public transportation and rectify highway passenger transportation, we must adhere to the principle of focusing on state-run companies while developing collective and individually-owned companies. Due to the loss of macroeconomic control on Route 59, we lost the balance in implementing the principle of focusing on state-run companies, resulting in the great price reduction war. Judged from other localities of Shaanxi Province, we can tell that the root cause of the problem of passenger transportation confusion in all localities is the same. Because of this, officials of provincial transportation department pointed out that to eliminate future confusion in passenger transportation, we must adhere to the basic principle of focusing on state-run companies and developing collective and individually-owned companies.

To develop highway public transportation and strengthen highway passenger order, we should strengthen macroeconomic regulation and control. The key to macroeconomic coordination lies in departments in charge of examination and approval. Departments in charge of examination and approval should go deep into the realities of life, conduct research, have an accurate understanding of actual conditions and changes in transport capacity and volume on all routes, and examine and approve routes and release vehicles in accordance with needs. They should control main highways, develop minor highways, and use preferential policies to develop passenger transport in remote and border areas. In this way, not only the "difficulty of getting transportation" is solved for passengers but the "difficulty of getting passengers" is also solved for transport units. If we fail to keep the situation as a whole in mind and rely simply on regulation by the market, we will find that everybody competes for popular routes and ignores unpopular ones. The "difficulty of getting passengers" and the "difficulty of getting transportation" cannot be solved effectively. After a considerable period of time, contradictions will become acute and at the end the government and the departments in charge still have to handle them. Aren't we looking for trouble?

To develop highway public transportation and strengthen highway passenger transportation, we must strengthen management. After highway passenger transportation began multi-company operation, the management of passenger transportation has become more difficult. Departments in charge of highway transportation should strengthen functions, exercise strict control, and enable various means of transportation to coordinate closely with each other, develop in a coordinated manner, compete rationally, promote each other, and enliven passenger transportation. Otherwise, the phenomenon of tangled warfare on Route 59 will ensue.

Highway passenger transportation is an important issue concerning the people's livelihood and production in urban and rural areas. Departments concerned must work conscientiously from both macroeconomic and microeconomic aspects, exercise careful control, and solve problems as they arise. They should not wait till problems pile up when there are troubles and losses.

FINANCE, BANKING

World Bank Loans Total 1.5 Billion in 1991

92CED190B Beijing ZHONGGUO TONGJI XINXI
BAO in Chinese 11 Nov 91 p 1

[Article "The World Bank Lends \$1.58 Billion to China in Fiscal Year 1991"]

[Text] In fiscal year 1991, the World Bank extended \$1.58 billion in loans to China. The loans were targeted at 10 items: agricultural development in the lower and middle sections of the Changjiang region, fourth quarter agricultural credits, technological transformations in town and village enterprises, Shanghai industrial development, development of mid-sized cities, development of research in core educational subjects, municipal construction in Liaoning, transportation construction in Jiangsu, agricultural development in Henan, and the strengthening of agricultural irrigation items. This information was provided in the World Bank's fiscal year 1991 report.

In fiscal year 1991 the World Bank provided a total of \$22.7 billion in loans. Asia received \$7.5 billion, Africa received \$1.4 billion, Europe, the Middle East, and Saharan Africa received \$6.6 billion, and Latin America and the Caribbean received \$5.2 billion. Loans to Asia were distributed among 12 nations—Bangladesh, China, India, Indonesia, South Korea, Laos, Nepal, Papua New Guinea, the Philippines, Sri Lanka, Thailand, and Vanuatu. By the end of June 1991, World Bank loans to China totalled \$10.615 billion, with the funds used to support construction of 93 items. The World Bank's fiscal year 1991 report pointed out that the Bank's Asian loans in 1991 were primarily targeted in four areas: Restoring macro-economic balance and supporting structural reforms in order to stimulate growth in the privatized economies, designing a branch department model that would be locally tasked with working to

reduce absolute levels of poverty and curbing rapid population growth, supporting the establishment of programs to halt environmental deterioration, and developing necessary material and societal infrastructures.

The World Bank's fiscal year 1991 report took pains to point out that the primary task of the World Bank remains working to reduce poverty. The Asian section of the report included a study on Indian social services and benefits to the poor. The World Bank report also disclosed that its investigation on poverty in Nepal has concluded and its analytical work on health care and the population in Papua New Guinea is finished. The report pointed out that Bangladesh, China, India, Indonesia, the Philippines, and Sri Lanka received assistance loans to be employed by the branch departments in alleviating poverty in the delineated regions of each country.

In its fiscal year 1991 report the World Bank also provided statistics compiled in accordance with World Bank accounting standards to show the levels of poverty in China and India. According to the World Bank, in 1981 196 million Chinese lived at or below the poverty level (20 percent of the population), and by 1989 this was reduced to approximately 67 million (six percent of the population). In India, 37 percent of the population lived at or below the poverty level between 1983 and 1984, and the ratio decreased to 30 percent of the population between 1987 and 1988.

Journal Reviews Foreign Debt Strategies

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No 9, 11 Sep 91 pp 49-54

[Article by Tan Zicheng (6223 2737 2052) and Hu Xueguang (5170 1331 0342) of the Guangzhou College for Financial Training. "China's Strategic Choices for Incurring, Using, and Repaying Foreign Debt During the Eighth Five-Year Plan"]

[Text] The introduction of foreign capital to supplement funds will be an important tactic in the successful implementation of China's 10-year program and Eighth Five-Year Plan. During the period of the Eighth Five-Year Plan, China will be incurring even greater foreign debt, and, at the same time, will be facing a peak repayment period for foreign debts incurred in the past. Consequently, there is an urgent need to investigate their assumption, use, and repayment. This article reviews some the ideas on this subject and proposes several policy recommendations.

1. A Basic Appraisal of the Assumption, Use, and Repayment of Foreign Debt During the Seventh Five-Year Plan

1. Assumption of foreign debt during the Seventh Five-Year Plan. First, in looking at the rate of increase, we see that the size of foreign debt during the Seventh Five-Year Plan went from a balance of \$15.8 billion in the last year of the Sixth Five-Year Plan to \$44.1. From 1986 to 1990, the balances were \$21.48 billion, \$30.2 billion,

\$40.003 billion, \$41.3 billion, and \$44.1 billion for each respective year, an average annual increase of more than 20 percent. Second, by analyzing the foreign debt structure, we can see the following. (1) Sources. During the Seventh Five-Year Plan, money borrowed from Japan, Hong Kong, and Singapore accounted for approximately three-fourths of China's total foreign debt. Other countries and regions accounted for the remaining one-fourth. Preferential loans from international financial organizations and foreign governments steadily declined, while nonpreferential commercial loans steadily increased. Noncommercial loans declined from 35.23 percent in 1986 to below 30 percent, while commercial loans during the same period increased from 64.77 percent to more than 70 percent. (2) Repayment schedules. During the first two years of the Seventh Five-Year Plan, short-term foreign debt accounted for approximately 10 percent of total foreign debt. During the final 3 years, this rapidly increased to nearly 20 percent. (3) Currencies. During the Seventh Five-Year Plan, U.S. dollars accounted for approximately 30 percent of foreign debt, Japanese yen approximately 40 percent, and other currencies such as the French franc, German mark, Hong Kong dollar, and special drawing rights currencies for less than 30 percent. (4) Interest. During the Seventh Five-Year Plan, approximately 50 percent of the foreign debt had floating interest rates. Around 50 percent of total foreign debt had low interest rates of 0-5 percent, 40 percent had moderate interest rates of 5-10 percent, and a very small amount had interest rates above 10 percent.

2. Use of foreign debt during the Seventh Five-Year Plan. First, in looking at the investments for which foreign debt was used, we see that during the Seventh Five-Year Plan it was chiefly used for key domestic construction projects, for enterprise technical renovations, for basic infrastructure such as energy and transport as well as for the import of raw and semifinished materials, technology, and equipment, for the import of production lines for consumer goods and home-use electrical appliances, and for technology and equipment needed for tertiary industries. According to incomplete statistics, construction projects, machine-building, manufacturing, and durable consumer goods industries accounted for approximately 60 percent of the foreign funds that China had agreed to borrow during the Seventh Five-Year Plan. Raw and semifinished materials and other industries accounted for approximately 20 percent, agriculture for around 5 percent, and education, public health, urban renewal, and other social development projects for around 7 percent. More than 58 percent of the total number of projects funded by direct foreign commercial investment were production projects. More than 90 percent of these funds were invested in industry. More than 40 percent of the total number of projects were nonproduction projects, and approximately 90 percent of these funds were invested in such things as commerce, tourism, hotels, and apartments. Second, in looking at the benefits of using foreign debt, we see that it played an extremely important role in

advancing China's economy, but there were still a number of problems. According to data from representative surveys by the Bank of China, some have used foreign debt to import such things as color television production lines, equipment that some sectors imported using large amounts of foreign exchange ended up surplus, idled, and even discarded due to poor quality or lack of complete parts, too much foreign debt was used to build expensive hotels and restaurants and to buy imported passenger cars, luxury goods, and expensive consumer goods; and some sectors only used foreign debt to import technology and equipment without paying attention to their assimilation and absorption and using them as a source of innovation. As a result, they were unable to use foreign debt to achieve the anticipated increases in production, increased exports, and a balance between revenue and expenditures on projects where this has been difficult to attain.

3. Repayment of foreign debt during the Seventh Five-Year Plan. First, in looking at the repayment of foreign debt principal and interest between 1986 and 1990, we see that \$6.23 billion, \$5.12 billion, \$7.18 billion, \$17.11 billion, and \$17 billion were paid each respective year. The total amount repaid came to \$52.64 billion, an annual average of \$10.528 billion. Second, in looking at the main part of foreign debt repayments, we see that the portion incurred and repaid by the government declined while the portion incurred and repaid by enterprises increased. For example, in 1988 foreign debt incurred and repaid by enterprises was 46.59 percent of all foreign debt, up from 43.82 percent in 1987. Foreign debt incurred by the government but repaid by enterprises was 25.31 percent of all foreign debt, up from 24.67 percent in 1987. Foreign debt incurred by the government and repaid by the government was 10.12 percent of all foreign debt, down from 13.13 percent in 1987, a decline of 3 percentage points.

In light of the preceding description of the assumption, use, and repayment of foreign debt during the Seventh Five-Year Plan, we see that the size of China's foreign debt was controlled within the scope of its capabilities, that the debt structure and the investments made were reasonable, and that repayments were fairly evenly distributed over time. China still faces a serious situation, however, as certain unfavorable factors continue to increase and are restraining our economic development. They are making it more difficult for us to effectively control foreign debt and successfully get through the peak repayment period. These problems are primarily manifested as follows:

1. Immoderate increases in the overall size of foreign debt. Steady increases in short-term foreign debt, gradual shortening of repayment schedules, and the tendency for interest rates to rise. There is obviously a large contrast between the rate at which China's foreign debt has increased and the rate at which our economy has grown. From 1986 to 1990 the average annual increase in foreign debt was more than 20 percent. During the same period, there was an average annual increase of 10

percent in GNP and 7.32 percent in national income, and the average annual rate of increase for trade and nontrade foreign exchange earnings was only 11.87 percent. This shows that the growth of foreign debt was much faster than that of the national economy for the same period. Such a rapid rate of increase in foreign debt is seldom seen internationally. If this continues at the present magnitude and rate, it will be hard for China to make its debt repayments during the Eighth Five-Year Plan. At the same time that the size of foreign debt is growing, the proportion of short-term foreign debt to overall foreign debt is steadily increasing. Although the proportion of China's short-term foreign debt was below the 25-30 percent mark, which is generally accepted as the maximum allowable limit internationally, during the Seventh Five-Year Plan, it did come to about 20 percent—well above the actual international limit of 15 percent. In addition, precisely because of the increase in short-term foreign debt, the period of repayment was gradually shortened. An average repayment period of 15 years during the Sixth Five-Year Plan was shortened to an average of 12 years during the Seventh Five-Year Plan. Furthermore, with a decline in low-interest government loans and an increase in high-interest commercial loans, interest rates tended to rise. This was bound to boost the cost of foreign debt. The above situation alerted us to the fact that these constitute additional unfavorable factors in China's attempt to obtain long-term, low-interest foreign loans on the international credit market during the Eighth Five-Year Plan.

2. The effective use of foreign debt has been poor, and our ability to repay has been weakened. The fairly severe problems that existed in the effective use of foreign debt during the Seventh Five-Year Plan became apparent as follows. First, project effectiveness was unsatisfactory—and even ineffective—on slightly more than 30 percent of the projects nationwide which were invested through foreign debt. For example, because some enterprises and some projects were unable to achieve their designated production capacity or their products were lacking in quality, their own ability to repay their debts declined, and they were unable to repay the interest on time. This caused foreign debt repayments to go into arrears. Second, certain priorities or priorities incompatible with our particular stage of economic development emerged in the use and distribution of foreign loans. Relatively little money from foreign debt was invested in basic infrastructure, but large amounts went into ordinary manufacturing, especially into durable consumer goods such as color televisions and refrigerators. This put an additional burden on the country's already severely inadequate energy supply and transportation facilities. During the Seventh Five-Year Plan, the rate at which industrial output value grew in China's manufacturing, electronic, and light industrial enterprises was much more rapid than it was in its basic industries. In addition, investment in agriculture from foreign loans was relatively slight. This was not in accord with our basic attempt to give priority to agriculture and our strategic requirement to develop agriculture. Third, investments

from foreign debt were not used to give strong support to export industries. The industries supported by foreign debt seriously displaced China's export industries. During the Seventh Five-Year Plan, the vast majority of investments from foreign debt were in manufacturing. They were concentrated chiefly on such things as motor vehicles and elevators in machinery and electrical equipment industries, refrigerators and color televisions in durable consumer goods industries, polyester yarns and Western-style clothing in textile industries, tea processing and cigarettes in food products industries, and rolled steel and lead materials in metallurgical industries. In looking at exports, we see that, during the Seventh Five-Year Plan, manufactured goods accounted for two-thirds of the total volume and primary goods for one-third of the total. According to custom statistics, the proportion of manufactured goods exported increased from 46.5 percent in 1987 to 69.6 percent in 1988. The total volume of machinery and electrical equipment exports came to \$6.019 billion, a 58.6 percent increase compared with 1987 and accounting for 12.7 percent the country's total volume of exports. The proportion of primary goods decreased from 53.5 percent in 1987 to 30.4 percent. Food products and beverages accounted for only a small part of China's total export volume. Various industries used a great deal of raw and semifinished materials. This shows that, basically, China's export products are not produced by the manufacturing industry but by the leading industries, by the basic industries. In addition, investments made from foreign loans have commonly come to replace those made with domestic funds. To sum up: Using foreign debt chiefly for "self consumption" has weakened the enterprises' ability to create foreign exchange and has caused an imbalance in the input and output of foreign exchange which will last for many years.

3. The windows of opportunity for incurring debt are too numerous, and there is no centralized control. This affects the quality and effectiveness of foreign debt assumption, use, and repayment. The People's Bank of China, State Planning Commission, Ministry of Finance, Ministry of Foreign Economic Relations and Trade, and Ministry of Agriculture, Animal Husbandry, and Fishery have constituted five large windows through which China could borrow funds from foreign governments and international financial organizations. The Bank of China, Communications Bank, China International Trust and Investment Corporation, China Investment Bank, and the international trust and investment corporations of Guangdong, Fujian, Hainan, Shanghai, Tianjin, and Dalian were 10 windows which had central authority to approve the issuance of international bonds and debentures. Furthermore, there were over 100 windows within the banking system in which the authority to raise foreign funds had been delegated downward. This created a multiplicity of points for the examination and approval of foreign borrowing. It was difficult to effect centralized regulation nationwide, and a decentralized state of affairs ensued. China's lack of a central office which has supreme authority for regulating foreign

debt has exacerbated the administrative dispersal. As a result, we were unable to establish effective control over the overall size of foreign debt. This severely affected our regulation of its quality and effectiveness and affected its effective use and our ability to make repayments.

4. With the means of regulating and controlling foreign debt unperfected and the monitoring organizations lacking in resources, proper regulation and control of assumption, use, and repayment of foreign debt has been difficult. Although, in China, the State Regulatory Bureau for Foreign Exchange has been designated to monitor foreign debt statistics and is the organization with which every unit incurring foreign debt has to register, it has still been very difficult to obtain accurate and authoritative figures. This is because of the growing number of windows through which the country can acquire foreign debt, the increased number of channels through which debt can be incurred, the many doors through which it can be administered, and the fact that every window for incurring debt has its own "exclusive" foreign sources. In addition, because of problems of structure and rank status, the Regulatory Bureau for Foreign Exchange has been unable to do what it has wanted to effect overall coordination of numerous government departments and to administer debt being acquired through local "windows." It has been impossible for it to carry out its macroeconomic function of regulating and controlling foreign debt size and structure. Furthermore, China at present has but a single means of administering foreign borrowing. Except for administrative means, it seems not to have any other means of manipulation and control. Because it lacks strong operational means, the climate in which foreign borrowing is used is not ideal and proper control the assumption, use, and repayment of foreign debt is extremely difficult.

II. Strategic Concepts for the Assumption, Use, Repayment of Foreign Debt During the Eighth Five-Year Plan

We believe that our foreign debt strategy during the Eighth Five-Year Plan should be deciding on the right size of foreign debt, designating sensible investments, and establishing and strengthening our ability to make repayments.

(1) The right size of foreign debt.

According to studies by a large number of Chinese scholars on the proper size of foreign debt during the Eighth Five-Year Plan, China's foreign debt will reach \$80-100 billion by the end of the century.¹ Although the forecast by specialists of the size of foreign debt is fairly authoritative, it seems to be on the high side. We think that, by the end of the Eighth Five-Year Plan, the country's foreign debt balance will be held at about \$60-70 billion, an average annual increase of 6-10 percent and, compared with the foreign debt at the end of the Seventh Five-Year Plan, an estimated increase of 33.8-61 percent. This is not a conservative goal. The basic factors involved in limiting China's foreign debt to

a moderate size are not only decided by the supply of funds on the international market for capital and our country's requirement for foreign funds. What is even more important is China's national strength, economic structure, economic operating mechanisms, its economic efficiency and the international economic climate, and its ability to readjust and make the necessary changes. The theoretical basis follows:

1. The upper limit of the economic debt rate during the Eighth Five-Year Plan should not exceed 15 percent. The economic debt rate is the ratio between foreign debt balance and GNP. It measures a country's production output against its capacity to assume foreign debt. The economic debt rate of 20 percent that is commonly used internationally cannot be automatically applied in our case. The main reasons are as follows. One, the economic debt rate in effect during the Seventh Five-Year Plan clearly demonstrated that it should not be too high from now on. The peak period of foreign borrowing was during the Seventh Five-Year Plan. Its year-by-year economic debt rates were 8.23 percent, 9.90 percent, 10.62 percent, 12.75 percent, and 12.67 percent. Even the highest year, 1989, when it was only 12.75 percent, the economic growth rate was still relatively high. The period of the Eighth Five-Year Plan will be the peak period for foreign debt repayment. The principal and interest for the vast majority of foreign debt from the previous 10 years must be repaid during the Eighth Five-Year Plan. This is why the economic debt rate should not be too high. Two, each year's increase in foreign debt must roughly coincide with the increase in GNP. The Eighth Five-Year Plan calls for annual increases of 6 percent in GNP. This means that annual foreign debt increases should be held between 6 and 10 percent. Three, there is a shortage of domestic matching funds. During the Eighth Five-Year Plan, domestic matching funds will still be tight and we will not be able raise them in sufficient amounts. Four, with China's highly rigid economy, the capacity to assimilate and shift foreign debt while in the process of transforming the country's economic structure is still quite weak. A negative effect is created if foreign debt is relatively large, because domestic work cannot keep up, which causes marginal costs to exceed marginal earnings on investment.

2. During the Eighth Five-Year Plan, the export debt rate is to not exceed 90 percent. The export debt rate is the ratio between foreign debt balance and total volume of exported goods and labor services. It shows the conditional relationship between the size of a country's foreign debt and its ability to earn foreign exchange. It is generally recognized internationally that it should not exceed a safety limit of 100 percent. China must strictly prevent its export debt rate exceeding the safety limit during the Eighth Five-Year Plan. The reasons for this are as follows. One, during the Seventh Five-Year Plan when foreign debt grew at a rapid rate, the export debt rates for each individual year were 69.49 percent, 76.57 percent, 84.14 percent, 93.42 percent, and 88.2 percent.

Except for 1989, the annual average was below 90 percent. There are no additional reasons why the export debt rate should exceed 90 percent during the Eighth Five-Year Plan. Two, the export of goods and labor services during the Eighth Five-Year Plan cannot differ greatly from the Seventh Five-Year Plan. During the Eighth Five-Year Plan, primary goods will still account for a very large portion of export goods; an estimated one-third. Primary goods have a weak capacity for earning foreign exchange. At the same time, the export of primary goods will diminish the supply of raw and semifinished materials needed for our own country's industrial development. Their export is not good for our country's economic development. In particular, the export of agricultural products, which are easily affected by natural factors, lacks stability. Although growth in nontrade foreign exchange earnings from such things as labor services will be fairly large, the base figures are low, and the total amount is small. Under the circumstances, we have to maintain some leeway in fixing the export debt rate.

3. Repayment debt rate should not exceed 20 percent. Repayment debt rate is the ratio between the principal and interest on foreign debt which must be repaid in a year and the total volume of exported goods and labor services. It measures a country's actual ability to make repayment during a specific year. The internationally accepted safety limit is 20 percent. The reality of China's situation is that there is little flexibility in export trade during the Eighth Five-Year Plan, and there is a great deal of rigidity in import trade. The considerable difficulty of maintaining a trade balance will inevitably affect our capability to repay foreign debt. In view of this, it would be appropriate to set China's repayment debt rate at 14 percent or less. We took into account that the peak period of repayment for more than 10 years of foreign borrowing would last straight into the Eighth Five-Year Plan from the Seventh Five-Year Plan. From 1986 to 1988 during the Seventh Five-Year Plan, average annual foreign debt repayment was \$6.18 billion. During the same years, average annual foreign exchange earnings from the export of goods and labor services was \$32.1 billion. The repayment debt rate came to 19.3 percent, almost at the internationally accepted limit. In 1989, when debt repayment was \$17.11 billion and foreign exchange earned from exported goods and labor services was \$31.9 billion, the repayment rate leaped to 53.6 percent. This makes clear that a repayment rate fixed too low is unrealistic, but it should in any case be held to 20 percent or below.

(2) Sensible investments from foreign borrowing. Sensible investments from foreign borrowing refer to the need to consider the long-range national economic development strategy, which calls for absorbing foreign capital to develop the most essential areas of the economy that will better enable China's industrial structure to move toward progressive and sensible change as quick as possible. This will optimize the import-export mix and will expand our capacity to earn foreign exchange from

exports. Accordingly, the ultimate use of foreign borrowing during the Eighth Five-Year Plan must, in compliance with state industrial policies, focus on production-oriented investments. They absolutely cannot be used for consumption or covering financial deficits and overstocked foreign exchange goods. The key here is determining what investment standards will obtain the most optimum results. Given China's present situation, the use of foreign borrowing during the Eighth Five-Year Plan should meet the following standards.

1. Projects contributing to the improvement of productive capacity. China is a developing country. The strength of its productive capacity hinges primarily on investment in infrastructure. This is why infrastructure projects in sectors such as energy, communications, transportation, and electric power should become the focus of investments from foreign borrowing. Developing the infrastructure will not only relieve the energy and transportation crises, it will also give impetus to developing the economy as a whole. Especially during the last few years, we have not been able to exploit approximately 30 percent of industry's productive capacity solely because of energy shortages. This is an extremely large waste of productive capacity. Large, long-term infrastructure investments which we lack the capacity to repay have in themselves a substantial influence on our capacity to repay foreign debts. Provided we become thoroughly familiar with the pace of investment in light of originating channels, time limits, and foreign borrowing structure and have in mind the overall benefit to the national economy, repayment can be guaranteed. For example, loans from foreign governments and credit from international fund organizations could be applied toward projects in energy, transportation, and communications.

2. Projects contributing to the rational use of energy. China is a country relatively rich in material and manpower resources. When making investments from foreign borrowing, we should take this into consideration by mainly developing industries with energy potential and labor intensive industries, for example, by allowing foreign businesses to invest directly in textile, machinery, electronics, and mining projects.

3. Projects contributing to strengthening our ability to earn foreign exchange export. In incurring foreign debt, we should not simply consider repaying the principal and interest, we also must consider changes in economic patterns. For a long time, China's economic patterns have been domestically oriented. They have limited further improvement in productive capacity. During the past 10 years, we have been in the process of shifting to an export-oriented economy. Exploiting those sectors where we have the advantage in international market competition is essential to increasing our sources of foreign exchange and in improving our export products capacity, for example, by using foreign funds to invest in projects for raw and semifinished industries, light industries, and the textile industry.

4. Projects contributing to agriculture and education. We cannot overlook the use of foreign funds for agriculture. It is the foundation of our national economy. If agriculture is unstable, the whole economy is unstable. This has been repeatedly proven since the founding of the People's Republic. At the same time, developing education, improving science and technology, and transforming potential productive forces into actual productive forces will give impetus to the whole economy. Consequently, agriculture and education are strategic focal points for investing foreign funds.

(3) Firming up repayment capacity.

If we are to survive the peak period of repayment during the Eighth Five-Year Plan and guarantee that principal and interest are repaid on time, aside from exercising sensible control over the size and pace of foreign debt set forth above, aside from paying attention to our investments with foreign borrowing, and aside from increasing relative and potential repayment capacity, it is even more important for us to adopt effective measures to strengthen our absolute real repayment capacity.

1. Expanding exports, readjusting imports, and increasing foreign exchange earnings. Expanding exports is not just ensuring an overall quantity of exports, it also means we must improve the export mix and raise the quality of export goods, gradually shift from emphasizing the export of crudely processed goods to that of intensively processed goods, and do our best to increase our export of machinery and electrical equipment, light industrial and textile products, high-tech products, and highly sought after specialty products which are strongly competitive on the international market. At the same time, there is great potential for readjusting the import mix. We should first limit the import of quality consumer goods, luxury goods, and items such as tobacco, liquor, and fruit. Second, we should control the import of raw and semifinished materials and machinery and electrical equipment—products which we can produce and supply domestically—and should focus on using foreign exchange to import advanced technology and critical equipment as well as goods and materials essential to production and construction vital to the country. If we can exercise strict control over these aspects, we should be able to squeeze out approximately \$3 billion each year to use for repayments, essentially without affecting the normal development of the domestic economy.

2. Increase foreign exchange and gold reserves. If, during the Eighth Five-Year Plan, it is essential for the country to adopt policies that vigorously encourage exports, we have to consider the following: Policies guaranteeing and discounting prepaid instruments and insurance for exports; tax exemptions or reductions as well as appropriate price and foreign exchange rate subsidies which would effectively eliminate trade deficits and achieve an international trade balance of revenues and expenditures. At the same time, we should continue to vigorously develop the export of labor services, international

tourism, overseas engineering contracts, and international air and sea shipping, as well as the domestic production of gold and its centralized management in order to promote a steady increase in foreign exchange and gold reserves.

3. Conversion of part of the principal and interest of foreign debt into capital. International debtor nations have used this debt conversion method in recent years to increase their repayment capability. The creditor nation gains debtor nation fixed assets equivalent to the portion of the claim waived and begins operations on the spot. In this way, the creditor nation is repaid a large part of its principal and interest and reduces its losses and the debtor nation successfully pays off what it owes on its foreign debt and maintains its reputation as a country that pays its debts. It would greatly benefit economic development if, during the Eighth Five-Year Plan, we could combine the goals of industrial policies and enterprise technical renovation with conversion of foreign debt to investments that would relieve the pressure of the peak years of debt repayment.

4. Introducing a responsibility system for repaying foreign debt, making clear who is responsible for assumption, use, and repayment, establishing mechanisms using repayment to limit assumption and use, and persisting in the principle of directly linking assumption with repayment. When central authorities centrally incur debt that is to be repaid centrally, they are responsible for its repayment. When the central authorities centrally incur debt that is to be repaid by enterprises, the localities, departments, and enterprises themselves are responsible for repayment and must not push it onto the central authorities. Foreign borrowing of the localities, departments, and enterprises can be repaid with renminbi equalized to foreign exchange by loans from the Bank of China, by limiting spending, and by drawing on foreign exchange funds that have been retained.

III. Implementation of Strategic Policy Proposals on Foreign Debt During the Eighth Five-Year Plan

Based on the China's current situation, the following are our policy proposals for ensuring proper assumption, use, and repayment of foreign debt during the Eighth Five-Year Plan, for making better use of foreign funds in developing the country's economy, and for successfully making it through the peak period of repayment.

1. Establish a state regulatory committee for foreign debt, create authoritative regulatory organizations, and strengthen macroeconomic control. China has been incurring foreign debt for a relatively short time and therefore lacks experience in regulating foreign debt and has not established authoritative organizations with centralized control. Its regulation is dispersed. To impose strong organizational leadership over all foreign debt activity, we propose that the State Council establish a "foreign debt regulatory committee" with participation by the State Planning Commission, the Finance Ministry, the People's Bank of China, the Bank of China, and

the Foreign Economic Relations and Trade Ministry. Its chief functions would be as follows: (1) Centrally implement foreign debt policy decisions in compliance with strategic policies for developing the national economy and industrial policies and determine the overall size of foreign debt and its structure; (2) work out foreign debt strategy and tactics and draft debt policies and laws as well as short-term, intermediate-term, and long-term development plans; (3) control and regulate investments made with foreign borrowing and the size of foreign debt with well timed adjustments in credit, interest rates, exchange rates, reserve fund rates, and other economic means that accord with the economic situation; (4) clearly define the responsibilities, rights, and obligations of foreign debt regulatory organizations and of enterprises and people with respect to the use of foreign borrowing, methods of repayment, and assumption of debt; (5) study and define economic debt rates, export debt rates, repayment debt rates, and repayment measures; and (6) improve foreign debt statistics, forecasting, and oversight. Given the present circumstances of China's foreign debt regulatory organization, we think that the existing State Regulatory Bureau for Foreign Exchange should serve as the executive body to a regulatory committee on foreign debt and focus on administering foreign exchange and foreign debt laws as well as managing policy-related operations. It could, from the Bank of China, specifically assume administration of operational and profit-making aspects of foreign exchange and foreign debt. A regulatory committee on foreign debt could, in concert with relevant departments, impose centralized policies, centralized planning, and centralized regulation with respect to foreign debt nationwide. This would basically change the present decentralized situation whereby departments in the foreign debt regulatory system are separate regimes either at the central or local levels. It could cut back on "windows" for incurring debt and provide effective oversight of localities, departments, and enterprises in their reporting on, application for, use of, and repayment of funds borrowed from abroad. It could also thoroughly separate the administration of foreign exchange and foreign debt policies from operational management and administration.

2. Establishing a foreign debt repayment fund, clearly defining the main parties involved in repaying foreign debt, and putting into effect foreign debt repayment amounts. We need to establish a foreign debt repayment fund to fundamentally alter a situation in which many are willing to incur foreign debt but no one is interested in repaying it, to restrict excessive demand for foreign borrowing, to accomplish the independent raising and repayment of funds, to create contingency mechanisms for defraying foreign exchange and foreign debt emergencies, and to strengthen our reserve capacity to liquidate debt. The foreign debt repayment fund would be administered by the state regulatory committee on foreign debt. It would be organized along the lines of similar international monetary funds, in particular with respect to methods governing the authority to withdraw funds. It

would be composed of localities, departments, and enterprises which had incurred foreign debt, and in particular, large- and medium-size cities with export-oriented economies in the special economic zones, the coastal region, and principle centers of economic development, as well as the head offices of the six ministerial-level industries, the Bank of China, and international trust and investment companies throughout the country. The amount of foreign exchange to be paid in by all concerned would be determined by taking certain years as base periods for the amount of foreign capital used and by using interest rates based on basket exchange rates or based on inter-bank call money on the London financial market for the year in question. Afterward, the individual years would be used as the standards. The more that is borrowed, the more that would be paid in. Portions that are insufficiently paid in would be paid retroactively. The less that is borrowed, the less that would be paid in. Excess portions could be temporarily retained or used as call money between members. In addition, the foreign debt repayment fund could also increase its funds for repayment by using part of the foreign exchange it retains to issue fund shares and foreign exchange bonds and debentures to bring in nonparticipants. The main function of the fund would be to rely on the self-financing capacity of the main parties incurring foreign debt to repay it and not have to transfer a substantial portion each year from the state's foreign exchange. This would eliminate the negative effect on the state's limited foreign exchange reserves and on the effectiveness of foreign exchange turnover.

3. Improving foreign debt statistics, information, and monitoring and keeping up to date with the latest foreign debt developments. (1) Administratively, these aspects would be handled by the state regulatory committee on foreign debt. This would include establishing and developing throughout the system statistical categories, information collection, and monitoring norms and the supervision, forecasting, and analysis of foreign debt size and structure. (2) Operationally, a regulatory system must be implemented to register foreign debt and to set up foreign debt accounts. The extent of foreign debt, both direct and indirect, domestic or overseas organizations incurring foreign debt, and direct overseas investment or domestically transacted loans all must come under the purview of the state system on foreign debt statistics and monitoring. (3) As to the means of monitoring, we should as quickly as possible implement computer data processing and computer networks in order to do timely and accurate collection work nationwide. (4) We must establish and develop an evaluation system for foreign debt statistics, information, and monitoring.

4. Formulate foreign debt laws and regulations and improve the standards for regulating foreign debt. Legal means must be used to regulate foreign debt. Despite having up to now more than 200 laws and regulations on attracting foreign investment, China still does not have foreign debt legislation. We must formulate as soon as possible a complete set of laws regulating foreign debt.

clearly defining the objectives of assuming debt, its scope, its conditions, regulatory responsibilities, means of application and approval, a statistical reporting system, means of supervising repayment of principal and interest, the size of foreign debt, and the investments to be made with it, as well as regulations regarding penalties and punishments. The laws and regulations must stress the importance, seriousness, and special characteristics of assuming, using, and repaying foreign debt, thus changing the "rule by man" to the "rule by law" in handling foreign debt. This will enable the main parties involved in assuming, using, and repaying foreign debt to assume legal responsibility and will shift foreign debt onto a track of normal operations.

Footnotes:

1. See "Analysis and Response to China's Foreign Debt Problems" by Huang Weiping [7806 5898 1627] in JINGJIN LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND ECONOMIC MANAGEMENT] No 6, 1990.

Workers Financing With Stock

92CLO1904 *Bringing JINRONG SHIBAO in Chinese*
8 Nov 91 p 3

[Article by Zhong Pengrong (6988 2590 2637): "Capital Circulation: Increase the Use of the Third Channel"]

[Text] The cycle through which enterprise revenues become capital reserves is marked by three main channels:

Channel One: From the enterprise to state financial organs, and then back to the enterprise.

Channel Two: From the enterprise to the individual, into the bank, and then back to the enterprise.

Channel Three: From the enterprise to the individual, and then back to the enterprise.

Prior to our economic reforms, enterprise revenues generally followed the first channel on the way to becoming capital reserves. That is, the enterprises would turn over all of their profits to the state financial organs and the state would then turn around and allocate expansion funds to the enterprises.

With the implementation of the "allocate to transform the commodity mix" intra-budgetary investment system in 1979 and the commodity mix intra-budgetary investment system in 1979 and the system of unified bank control over enterprise floating capital in 1983, the second channel became the main avenue by which enterprise revenues made their way back to become enterprise capital reserves. That is, the individual became the likely recipient of enterprise revenues, and individual income grew rapidly. People had much more money in their hands after taking care of essentials and as a result bank deposits grew from over 20 billion yuan in 1978 to over 800 billion yuan today. As the scale of

deposits grew, bank loans also increased from over 140 billion yuan in 1979 to over 1.7 trillion yuan today. As a result, enterprises use bank capital for production and management. Today, nation-wide, 80 percent of the funds of industrial enterprises are borrowed, 93 percent of the funds of commercial enterprises are borrowed, and 98 percent of the funds of foreign trade enterprises are borrowed. Our whole economy is beset with a condition whereby enterprises pay out more, individuals deposit more, banks lend more, and the enterprises rely on the banks more.

The third channel is achieved in two primary ways. The first way is for the enterprise to distribute less of its revenues to the employees, and instead use a portion of its revenues to develop production. The new capital gains that are made from this are owned by the employees, and through the issuance of stock, individual employees receive shares in the ownership of this capital. The second method is for the enterprise to issue stocks and bonds to the public and re-direct a portion of the consumption fund into the production fund. For example, in 1990 the employees of a certain large enterprise earned an average wage of 2,900 yuan. The employees all put a portion of their earnings in the bank (let us say 500 yuan each), and the bank in turn loaned this money to the enterprise. Using the third channel, the enterprise would only give each employee 2,400 yuan in wages and the remaining 500 yuan would be put back into renovations, alterations, and replenishing the floating capital. At the same time, the average employee would receive 500 yuan worth of enterprise stock. In this way, the enterprise (with 110,000 employees) would get 55 million yuan in capital that did not go through the bank but rather came straight from the individual.

Of the three channels of capital circulation, the first used to be the main channel used in the past but it is unlikely to ever re-appear. Today we are faced with the choice of using the second or the third channel. As the analysis below demonstrates, appropriate increases in the use of the third channel of circulation would have certain positive effects on both the economy as a whole and the micro-economies.

First of all, use of the third channel can help prevent enterprises and employees from exhibiting short-term behavior with respect to retained profits. In the second channel of fund circulation, the basic pattern is for the state-owned enterprise to take retained profits and distribute them as bonuses and to fuel production through loans. Some refer to this as using up the inner reserves while relying on outside infusions. This happens because under this system what you consume is yours but what you save belongs to the state. Retaining and accumulating profits equates to turning over your profits to the higher authorities. If the new increase in assets brought about by retained profits is not turned over to state ownership but instead is distributed to the employees in the form of stock, then whether retained profits are distributed in the form of bonuses or are put away as

reserves are, for the employee, the difference between distributing eggs and hens. If one distributes an egg, one can eat it right away. If one distributes a hen, one is momentarily prevented from eating an egg but later one can feast on them. For those employees who are anxious to eat an egg—let them sell their hen to get it. This is how stocks work. This way, enterprises and employees need not engage in short-term behavior with respect to retained profits.

Secondly, use of the third channel helps build a mechanism of self-restraint on the part of the enterprises. Currently, all banks in China are state-owned banks, managed and operated under unified state control, with profits and losses shared jointly. When residents deposit their idle funds in the bank and those funds are then lent by the bank to an enterprise, two changes in the nature of the funds take place. First, the funds, once private, become state-owned funds. The residents own their money in a private capacity, but when the money enters the bank and then is lent to an enterprise, the money becomes state funds. Second, tightly restricted funds turn into loosely restricted funds. The bank must pay back both the capital and interest to the depositors. When the capital deposited by the residents is lent out by the bank, it becomes money that may or may not be returned. A primary reason why banks never have enough loan capital to meet the demand and why funds are used in extremely wasteful ways is that banks place very loose controls over the loans made to enterprises. When enterprises issue stock, the individual's idle funds go directly to the enterprise and the enterprise is then dealing with private funds, not state funds. The pressure to properly and prudently employ private capital is much greater.

Third, use of the third channel helps eliminate the contradiction between high interest rates and low profits. Using the second channel, interest payments come before profits. Regardless of whether an enterprise turns a profit, and to what degree, the interest on the loan must be paid before all else. This leads to the contradiction between high interest rates and low profits. For example, in 1990 the average rate of profit on capital in Baotou was only 2.1 percent, whereas the average interest rate on bank loans was between eight and nine percent. Compared to other business concerns in Baotou, the results enjoyed by Baotou Steel Company were quite good, with an average rate of return on capital of five percent in 1990. However, the interest rate on the company's bank loans (including penalty interest) exceeds ten percent. Interest levels of this magnitude are unendurable for an enterprise. Bringing the interest rate down below the average rate of profits on capital would be a natural solution. However, numerous obstacles prevent the state from ordering the interest rates down. Freeing the interest rates would, in the short-term at least, be difficult to achieve. By issuing stock, the owners of the capital, through their stock, directly participate in the distribution of enterprise profits. When profits are up the dividends are greater, when profits are down the

dividends are reduced, and when there are no profits there are no dividends. This enables an enterprise to resolve the contradictions between high interest rates and profits and between fixed interest rates and fluctuating profits.

Fourth, use of the third channel can alter the mix of financial assets held by residents and lessen the risk of flooding bank deposits. Our economy is stuck in a depositary mode—one might call it a depositary economy. Under normal conditions, deposits will only increase, they will not go down. However, who can assure us that, for one reason or another, deposits will not appear in concentrated form to try and corner the market in a commodity and send prices skyward? Obviously, there are great risks in this depositary economy. In the interest of economic stability, it is imperative that the mix of financial assets held by the people be altered and the economy as a whole rely less on the use of bank deposits. The issuance of stock is a primary way to achieve this aim, moving a portion of the funds from the second to the third channel. Returning to the example used above, in 1990 the enterprise paid an average of 2,900 yuan in cash to each employee. The employee did not use the whole sum up that year and a considerable chunk ended up in the bank as a deposit. Hence, the enterprise decided to replace a portion of that 2,900 yuan with stock of equal value. The employee's income did not go down, nor did his consumption. The only change was in the mix of the employee's financial assets. In the past, an employee would be left with nothing but currency (bank deposits and cash) after paying out his living costs. Now, part of the surplus is currency, and the other part is stock. For an individual employee, the stock can be converted to cash. But, as far as the society as a whole is concerned, the conversion would represent merely a change in the hands that hold the stock and the cash. The sources of funds for society as a whole do not lessen when stock is sold, the amount of currency in circulation does not increase when stock is sold, and overall commodity price levels do not fluctuate significantly when stock is sold.

In sum, precisely because the third channel induces such positive results, we should, through the issuance of stock, move a portion of our nation's capital from the second to the third channel. By doing so, we can simultaneously solve the problems of enterprises giving too much of the retained profit to individuals, total reliance on bank loans for enterprise capital, high interest rates and low profits, enterprises imprudently employing funds, deposits filling the banks to the bursting point, as well as numerous other maladies currently harming our economy.

Woes Due to Distribution Pattern, Budget Deficit

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[Article by Wang Shanfei (3769 4801 7378). "Readjust the Distribution Pattern, Reinstate the Balanced

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[Text] Economic vitalization should and will lead to financial vitalization. It will create a solid economic base for boosting the state's revenues and balancing the budget. This is the general law of financial and economic development. Yet during the Seventh Five-Year Plan period, we encountered a different situation. As the nation's economy developed, the deficit continued to grow year after year and financial problems continued to mount. That was a very inconsistent phenomenon. It proves that our current financial woes are not the result of declining production or reduced financial income but the result of the distorted distribution pattern. If we fail to change the current distribution pattern, if we fail to radically restructure the existing financial system, it will be very difficult to attain financial vitality despite the economic vitalization. If we maintain the current distribution pattern, our financial problems will continue to get worse, and eventually it will bring insurmountable

problems as we try to achieve balanced economic development and implement thorough reform. Thus, we have reached the point where it is imperative to readjust the distribution pattern and reinstate the balanced budget.

1. The Current Financial Situation Should Not Be Taken Lightly

Economic and financial experts disagree on their assessments of the current financial situation and the pre-sent financial system. Some comrades feel that although there are financial difficulties, the situation is tolerable, and things will turn around if we take certain measures to increase income, so there is no need to drastically change the existing financial system; instead, we should keep going, and the important thing is to perfect the existing contract system. Other comrades feel that the current financial problems are very serious and that we have reached the point where we must do something. They believe that our problems are directly linked to the existing financial system, and if that system is not radically restructured, our financial troubles will get worse, and so we cannot take the current financial situation lightly. This author concurs with the latter view.

Table 1. Financial Condition Under the Seventh Five-Year Plan Unit: billion yuan

	1990	1991	1992	1993	1994	Total
1. Total fiscal revenue	226 028	236 890	242 802	244 787	324 478	1344 985
Regular income	212 291	219 935	223 841	226 490	288 617	1223 084
Foreign debts	7 570	10 648	13 861	14 808	16 274	62 763
Domestic debts	6 291	8 307	13 100	13 691	19 587	59 186
2. Total fiscal expenditure	233 081	244 849	270 66	304 02	339 921	1392 131
Financial total debts	7 001	7 997 838	9 233	15 043	47 148	
3. Actual deficit	20 080	24 914	34 810	37 130	50 904	169 067
Foreign debts	7 570	10 648	13 861	14 808	16 274	62 763
Domestic debts	6 291	8 307	13 100	13 691	19 587	59 186
Financial total debts	7 001	7 999	7 857	9 233	15 043	47 148
4. Fiscal deficit as a percentage of total expenditure (%)	8.66	10.17	12.86	12.34	14.90	12.14

The financial situation during the Seventh Five-Year Plan period did not look good (see table) and the 1991 Budget shows no sign of improvement. The budgeted income for 1991 comes to 344.31 billion yuan. This includes 16.237 billion yuan in foreign debts and 19 billion in domestic debts, and the two items add up to 10.23 percent of the total income. Regular income is budgeted to be 319.073 billion yuan, or 89.77 percent of the total income. Energy and communications fund and budgeted regulation fund add up to 34 billion yuan, or 11 percent of the regular income. The actual deficit is 47.583 billion yuan, or 13.34 percent of the total expenditure, which is 1 percent higher than the five-year average during the Seventh-Year Plan period.

Overall, there are four things worth noting in today's financial situation: (1) The deficit is too big, and we are too dependent on debts to finance our spending. Debt-income is an important source of funds in modern financial administration, and there is nothing wrong with debt-income if used in moderation. However, the use of debt-income to solve our financial problems should be limited to a level compatible with the country's economic development, to a level where it is economically efficient to borrow, and to a level compatible with the country's ability to repay its debts. All debts eventually will have to be paid back, and if we are too dependent on loans, we will be overloaded with debts.

which will add to our financial woes. (2) Abnormal income is accounting for an increasingly larger share of the state's regular income and is eroding its normal income. It is interfering with the normal distribution order and is exacerbating the chaotic financial distribution and is creating problems for thorough reform. (3) Financial issuances which are being used to remedy the deficits have been increasing year after year—from 7.055 billion yuan in 1986 to 12.346 billion in 1991, an increase of 74.99 percent. All classical Marxist-Leninist writers (from Marx to Mao Zedong) oppose the use of financial issuances to remedy deficits, because this practice upsets the supply-demand balance, undermines the balanced development of the national economy, and leads to runaway inflation. It is considered a negative factor in the nation's economic development. (4) Certain financial measures being adopted to enliven the state-run enterprises continue to distort the distribution relationship and exacerbate the financial problems. In particular, the practice of allowing some enterprises to take out 1-3 percent of their income from sales to be used as development fund will have an extremely adverse effect on the balanced development of the national economy and on the pattern of financial distribution. The negative effects it generates will be much worse than that produced by pre-tax debt payment. Looking at the above data and problems, the current financial situation must not be taken lightly. We cannot muddle along. Instead, we should realize the seriousness of the problems and have a sense of impending crisis.

II. The Distorted Distribution Pattern Is the Main Cause of Our Financial Woes

Revenue and expenditure reflect the overall state of the national economy, and the financial situation reflects the trend of the nation's economic development. If revenue and expenditure are in serious disequilibrium, it will be

very difficult to achieve balanced economic development. But today's situation is one where there is rapid economic growth amid mounting financial woes. If we take 1985 as the base year, by 1990, the national income has increased 43.3 percent based on constant prices and 103.7 percent at 1990 prices, increasing at an average rate of 7.5 percent and 13.3 percent a year, respectively. Meanwhile, the deficit has grown from 6.82 billion yuan in 1985 to 30.9 billion yuan in 1990, and deficits as a percentage of those years' national income have increased from 0.96 percent to 3.56 percent. This situation shows that today's financial problems are caused mainly by the distorted distribution pattern which in turn is linked to the financial system. From the point of the financial system, the distribution pattern is being distorted mainly in the following six areas:

1. We have a double-track financial distribution system. This refers to the parallel treatment of budgeted and extra-budgetary income, and increasingly, budgeted income is being turned into extra-budgetary income, and the process has resulted in a steady decline in the relative share of budgeted income in the national income distribution. In the first four years under the Seventh Five-Year Plan, the double-track distribution system showed the following trends (see Table 2): Budgeted income decreased proportionally as extra-budgetary income increased, and as a result, budgeted deficit spending continued to grow, increasing our dependence on debt-income to finance our budgeted spending. Deficit spending made up 8.96 percent of the total expenditure in 1987, 10.17 percent in 1987, 12.86 percent in 1988, 12.34 percent in 1989, and 14.99 percent in 1990. Over the period of five years, deficits made up 12.1 percent of the total expenditure. Besides increasing financial issuances, these deficits have been remedied through government borrowing. From the point of China's level of economic development, the country is already too dependent on debts to finance its spending.

Table 2.

Year	Regular Income (in billion yuan)	Percentage of National Income (%)	Extra-budgetary Income (in billion yuan)	Percentage of National Income %	Extra-budgetary Income as a Percentage of Budgeted Income (%)
1986	212.201	27.0	173.731	22.0	81.9
1987	219.935	23.7	202.48	21.8	92.2
1988	233.841	20.1	227.00	19.4	96.3
1989	266.49	20.5	265.843	20.4	99.8

Double-track distribution of budgeted and extra-budgetary income has its origin in the old system of centralized revenue and expenditure. The system should have been changed when the financial system was restructured, but under the guiding ideology that tried to protect vested interests, it not only was not changed but was reinforced. Today the nation basically has as much extra-budgetary income as budgeted income, and for most localities, extra-budgetary income has exceeded their budgeted income. In 1990, because more enterprises were incurring losses, their after-tax profits

declined, and so the localities might have had less extra-budgetary income. However, so long as the double-track distribution system remains, more and more budgeted income will become extra-budgetary income. This is an inevitable trend under the double-track distribution system.

2. The financial subsidy burden is too heavy. This is another important reason behind our financial woes. The financial subsidy burden continued to be very heavy under the Seventh Five-Year Plan (see Table 3). Financial subsidies took up 27 percent of the state's regular

income in 1986 and 36.5 percent in 1989, subsidies are up one-third of the state's income. The excess subsidy burden shows that our financial system is perpetuating the old pattern of putting all revenues and expenditures under central control. First, the "big pot" which the state's public finance and state-run enterprises eat out of has not been smashed. This is evident in the practice of merging taxes and profits and making the state take responsibility for enterprise profits and losses and even letting the state pay off enterprise debts (referring to pre-tax debt payment). Second, the practice of eating out of the financial and price "big pot" has not changed. Income generated by price hikes goes to public finance and losses are remedied by subsidies. Price reductions only result in reduced state revenues or are reimbursed with state revenues. In short, all price changes eventually are absorbed by public finance. This is the basic characteristic of "eating out of the big pot." In the last few years, people have been criticizing workers and enterprises for "eating out of the big pot," but few have noticed the state and state-run enterprises "eating out of the big pot." This "big pot" is served up by state public finance. The state and state-run enterprises' "big pot" not only adds to the financial problems but also hampers the progress of economic reform and saps state-run enterprises' energy, and it prevents us from giving play to the superiority of the system of ownership by the whole people.

Table 3

Year	Price Subsidies (billion yuan)	Enterprise Loss Subsidies (billion yuan)	Total Subsidies (billion yuan)
1986	29,748	32,478	58,226
1987	29,440	37,643	67,083
1988	31,682	44,646	76,328
1989	37,333	59,889	97,243
1990	37,863	57,850	95,713

3. Contracting ruins the normal order of financial distribution and tilts the national income distribution too much in favor of enterprises and localities. First, the enterprise contract system substitutes responsibility contracts for state taxes. This not only diminishes the seriousness of the state's tax system and distorts the allocation relationship between the state and enterprises, but because of the difference in contract bases, it also creates an imbalance in enterprises' burdens and upsets the normal distribution order. Second, taxation is something extrinsic to enterprise management and should be applied equally to all enterprises. Contracted tax responsibility not only turns this external factor into an enterprise management goal, distorts enterprises' management behavior, forces enterprises to focus their energy on earnings rather than on product quality, technological progress, and market competition, but it also creates insurmountable problems for tax collection and management and for the restructuring of the taxation system. Third, the contract base in enterprises' contract with the

state and the local governments' contract with the central government are determined based on total income, and whether we are talking about the contracted amount or the incremental contract rate, it always ends up with enterprises and localities retaining most of the incremental amount while keeping the existing base amount unchanged. This inevitably causes the income distribution to tilt even more toward enterprises and localities and leads to the relative decline in the central government's income in the budget.

4. The income-boosting policy is the result of bloated nonproductive government organs, price hikes, and inadequate government funding. It is an important symptom of the distorted distribution pattern and is also the dire consequence of today's money-management concept. Today's idea of money management is to hold on to our present income and ignore the loss of financial resources, and so long as we are not asking the state for money, the financial departments not only do not care where the units and individuals get their money from but have explicitly asked that they make money on their own. As a result, all state organs that perform any social function at all can make some money depending on the specific function they serve: those with power use their power to make money, those with backing rely on their backing, and those without power or backing commit "highway robbery" and "exact toll."¹ There is no way to estimate what kinds of fees and how much are being collected nationwide. According to one report, Shaanxi Province has abolished 1,651 unreasonable fees to fund administrative undertakings. Jilin Province has sorted out 2,778 pieces of document on fees, fines, and apportionments and has decided to abolish 328 while retaining 2,450 of them. 36 functional departments in Hangzhou authorized to collect fees have imposed 6,653 assorted fees in 292 separate categories for all sorts of named and unnamed purposes. 44 functional units in Chongqing City's Baxian County are imposing 274 assorted fees, nationwide, the public security system is collecting 187 assorted fees, 67 of which are imposed by the state and the provinces and 120 are imposed by the localities themselves.² As for the "highway robbery"-type tax outposts and checkpoints, they are innumerable—there can be as many as 1,200 in a single province. These corrupt phenomena of indiscriminate fee collections, apportionments, and fines not only put much of the national income into private pockets and rob the state of its revenues, but they also seriously pollute society's tendencies and corrupt the social organs. The anti-corruption movement should begin right here.

The reason we consider the "three indiscriminations" a serious problem that interferes with the financial distribution process is that they basically are the result of the state's financial policies. First, income generated by statutory fees and fines is a part of the state's functional income and should be handed over to the state—"turn in everything captured"—and no unit may hold back anything for its own use. Only in this way can we effectively prevent people from using their power to line their own

pockets, and only then can we implement all policies and laws properly. But we are doing exactly the opposite today: income from statutory fees and fines and confiscations is allotted to the units and is put in their disposal. It becomes the source of funds to finance the units' wage increase, bonus payment, and additional material benefit. This turns the exercise of state power into a means to make money. In name this is to "boost income," but in fact this is open corruption, bribery, blackmail, and extortion. This policy ultimately will put the party and the state against the people. Second, allowing the non-productive state organs to generate income is in fact mobilizing the masses to empty the state treasury, because the process of boosting income either reduces state revenues or increases state expenditures. By raising costs, people can get their hands on the state's income, and through the "income-boosting policy," they turn much of the fiscal revenues into the units' or personal income.

5. The policy-orientation of the distribution process and the irregular financial-levy measures have killed the state-run enterprises and dried up the financial source. State-run enterprises are the main source of the state's revenues. Today they have fallen on hard times, and this has put the state's financial woes and the sagging state-run enterprises in a dead-end where they block each other's exit as the financial resources are exhausted. The state-run enterprises are sagging because of the financial-economic policy which is putting the squeeze on them: (1) The price squeeze. Enterprises under other ownership systems have rights over the sale of their own products and can sell their goods at market price, but state-run enterprises are under strict price control. They buy their materials at a high price but cannot sell their products at the same high price, and as a result, many are losing a lot of money. (2) The tax squeeze. Under the existing tax laws, the state-run enterprises bear the heaviest tax burdens. For example, the income tax rate for foreign-owned enterprises and joint-venture enterprises is 33 percent, the basic income tax rate for privately owned enterprises is 35 percent, the highest income tax rate for collective enterprises is 55 percent. State-run enterprises' nominal tax rate is as high as 70 percent (55 percent income tax plus 15 percent retained-profit regulation tax). (3) The irregular financial levies have landed state-run enterprise in dire straits. Besides income tax and retained-profit regulation tax, a 15 percent tax is imposed on the state-run enterprises' after-tax profit to go to the energy and communications fund and another 10 percent to the budget regulation fund. These two funds also include a basic depreciation fee, which means they have to pay a fee on the compensation they get for sustaining reproduction. Today the central government is collecting two funds and the local governments are following its example and are collecting three funds, five funds, and even eight funds. This kind of unrestrained financial levy has landed state-run enterprises in dire straits. Realistically speaking, what we are implementing today are pricing and financial policies that are putting the squeeze on the state-run economy. These policies

contradict completely the idea of giving play to the superiority of socialist economy. Subjectively we want to develop socialism, but in fact, we are implementing these repressive policies which rob the state-run enterprises of their vitality and create the impression that they do not measure up to the collectives, the collectives are not as good as privately owned enterprises, and that Chinese are inferior to foreigners. This in turn has given those people who advocate the private-ownership system a handle and allow many people to be proud of the fact that they work in foreign-invested enterprises. It has distorted the image of the state-run economy and has made the socialist economy less attractive.

6. The financial system is replete with redundant organs, and internal struggle over rights and privileges has led to the decentralization of financial power and has weakened the macro control mechanisms. Financial functions are exercised through the financial organs. They should be installed based on what is needed to carry out their functions and not for the sake of accommodating certain people. Thus, the restructuring of the financial system should begin with changing the original functional organs. As new organs are being formed, old organs should be dissolved. We should let the new organs take on new functions, lift the restrictions on rights and privileges, and change the operating mechanisms. If we retain the old organs and create new organs at the same time, a sharp conflict between the old and the new organs will develop as the former try to protect their vested interests. Today the financial system is retaining the old organs left over from the days of centralized revenue and expenditure, but has also established new organs since the reform. The old organs must follow the old track to keep the old mechanisms going while the new organs follow a new track to break a new path for the new mechanisms, which makes power struggle inevitable. For example, within the revenue system, we have the Agricultural Tax Bureau which parallels the State Administration of Taxation, and we also have the Financial Affairs Department that parallels the State Administration of State Properties; within the expenditure system, we have various financial departments in charge of different spending items alongside the Budget Bureau. Actually, when it was proposed that state functions be separated from ownership functions and that reform measures be implemented to separate management and ownership rights and government from enterprises, the financial system should have sorted out the financial organs and redefined the scopes of their functions in accordance with the new distribution pattern, and it should have set up new organs after abolishing the old and smoothed out the relationship over their rights and privileges. But it has kept the old organs after setting up new ones, thus creating a conflict between old and new organs over rights and privileges. This disrupts the financial distribution process, adds new relay levels to the financial mechanisms, and weakens financial administration's control function.

Besides the above six problems, the double-track wage system and the ever-popular funds system also have a

direct effect on the financial distribution process. Much of the financial resources have been turned into personal income or income for the units under these two systems. In particular, there are more and more funds of every shape and description, which not only decentralize the financial resources and dismantle the financial functions but also dismember the financial organs and turn financial administration into an empty shell.

To sum up the above, the distribution pattern and the financial system are being distorted, financial resources are being drained, financial power is decentralized, and while national income is increasing significantly, public finance is in shambles.

III. Readjusting the Distribution Pattern and Restoring a Balanced Budget Are Objective Requirements of the Planned Commodity Economy

Everyone in financial and economic circles basically knows about the above-mentioned problems. The only difference is that some people take them lightly and some take them more seriously. However, there is no consensus on how to approach and solve these problems. There are many suggestions and different opinions and serious disagreements.

First, from the point of possible solutions, there are three suggestions: (1) Stabilize the overall situation and make partial amendments and remedies. Those who take this view maintain that past reforms have basically been on the right track, that there are no serious mistakes, and the important thing today is to maintain a stable and unified situation and give the policies a sense of continuity. They believe that we should only amend and readjust the existing financial policy but should not make drastic changes, that the financial problems can only be solved by increasing income, and today, we should only adopt some income-boosting measures that will not undermine stability. (2) Make comprehensive rectifications. Those who advocate this idea believe that there are many factors behind today's financial problems, and these problems cannot be solved purely as financial problems, instead we can only put our hopes in a change in the overall situation and in the leadership's paying more attention to the problems. (3) Further the reform process. Those who take this viewpoint maintain that today's financial woes are the result of errors in certain reform measures or because the reform measures fall short and that the problems can be solved by thorough reform.

Second, from the point of the direction of reform, there are also three suggestions: (1) The market direction. People who advocate this idea believe that today's many problems are caused by the underdeveloped market. They believe that only if we let the market develop, if we put public finance onto the track of the planned commodity economy, if we smooth out the distribution relationship between the state and the state-run enterprises, and only if we smash the "big pot" which the state and the state-run enterprises eat out of can we stop being

passive about the revenue and expenditure situation and cure the financial woes. (2) The planning direction. Those who advocate this view believe that today's problems are caused by our abandonment of planned control, and only if we strengthen planned control and reduce the scope of market regulation can we effectively control the decentralization process and centralize the financial resources and solve our financial problems. (3) The planning and market regulation direction. Those who subscribe to this view believe that both planning and the market are essential in a commodity economy, and the crucial thing is to balance the relationship between planning and the market and make planning the basis of the market and let the market guide our plans. We should not use planning to counter the market or alienate the market from planning, and only by changing the double-track pricing and distribution systems can we put an end to the chaos in the economic process and end our financial plight.

All of the above suggestions have their reasonable side and have something to offer. Based on the information I have on hand, if we want to solve the above problems and cure our financial woes, we must adopt the following measures:

1. We must implement thorough reform and readjust the distribution pattern. As mentioned earlier, our current financial problems are not the result of declining production or reduced national income but the result of a distorted distribution process and failed financial mechanisms. The failure of the financial mechanisms is caused by errors in the reform measures and by obstacles put up by those who want to protect their vested interests. Only if we further the reform process, remove the obstacles erected to vested interests, and readjust the distribution pattern can we pave the way for a new system. In the last 10 years, because the reform had no overall plan or a clear objective, many reform measures contradicted one another, and although the old system was smashed, the new system has not been firmly established, and the power struggle between the old and the new mechanisms has prevented the whole financial system from working properly. The devolution of power and yielding of profit to the lower levels have been offset by the installation of various funds and the "income-boosting" policy. The "substitution of taxation for profit delivery" which is based on the separation of ownership and management rights is countered by the enterprise contract system. Today's financial system can be summed up by one word—guarantee. Enterprises guarantee tax delivery and localities guarantee revenues. The restructuring of the financial system simply cannot get off the old track of centralized revenues and expenditures. Theoretically speaking, contracting is a relationship of mutual protection, it cannot be one-sided. If enterprises guarantee the state's income, then the state must take care of enterprise losses, one presupposes the other. In a commodity economy, enterprises are profit-making entities, and they guarantee the state's income, but the result is that the economic entities get all the

profit and the state is left with the losses. It is inevitable that enterprises will only take care of the profits but not the losses. Thus, in essence, contracting is but an extension of the "big pot." So long as enterprises take responsibility for their profits but not the losses, the state must collect extra money from enterprises in addition to the contracted income, which will further increase enterprises' financial burdens, and at the end both enterprise management and public finance end up in dire straits. The only solution is to readjust the distribution pattern, change the operating mechanisms, and dredge the channels. Specifically: (1) We should separate taxes from profits and separate the allocation of the state's tax revenues from enterprises' after-tax retained profit. Taxes are taxes and profit is profit. The state collects taxes, but after-tax profit belongs to the owners and the managers. We should abolish pre-tax debt payment and stop the collection of the two funds. We should replace abnormal income with normal income and stop subsidizing operating losses and smash the state-run enterprises' and public finance's "big pot," so that, on the basis that everyone pays a fair share of the taxes, the state-run enterprises, like enterprises under all other ownership systems, can truly make their own management decisions, take care of their own profits and losses, develop on their own, and restrain their own behavior. This will energize the state-run enterprises and cure our financial woes too. (2) We should replace the locality contract system with the classified tax system. Upon clearly delineating the central and the local governments' administrative rights, we should implement a classified tax system and separate central taxes from local taxes. Central taxes should be legislated by the central government, and the revenues should go to the central government. Local taxes should be legislated by local governments, and the revenues should go to the local governments. The classified tax system must make sure that the localities have ample financial resources and unify financial and administrative rights. This mandates the establishment of a local tax system. Today besides designating tariffs, value-added tax, and product tax as central taxes, and besides levying enterprise income tax at both the central and local levels, all other tax categories can be designated as local taxes. Different localities may impose different local taxes, and localities with higher income can impose fewer tax categories and vice versa. However, no matter how much or how little a locality makes, central tax revenues should never go to the local governments. If some localities cannot meet their expenses with the taxes they collect, they may be supplemented by the central government. This is very important measure which prevents local separatism and strengthens macro regulation and control. The above two measures can smooth out the distribution relationship between the state and state-run enterprises and between the central and local governments to create a new distribution pattern.

2. We should centralize the financial resources and balance the budget. The distorted distribution pattern and the scattered financial resources are reflected mainly

in the following areas: (1) Society's wealth is being carved up and the centralized financial distribution is being torn into three parts, namely, budgeted income, extra-budgetary income, and extra extra-budgetary income. Take 1989 for example. The state had 280.381 billion yuan in budgeted income, and 265.883 billion yuan in extra-budgetary income. Nobody knows how much extra extra-budgetary income there was. Just the portion which should have been but was not brought into the budgets of government at various levels, including fundings for "people's construction of the people's cities" and for the village government, is quite substantial if we look at the available reports and data. Statistics compiled by the Ministry of Agriculture in 1989 showed that village retained-profit deduction and township centralized planning alone took up 7.7 percent of the peasants' per capita net income, and adding other levies, their total burden exceeded 10 percent². In 1989, the peasants' per capita income was 601.5 yuan, and if we figure that there were 800 million peasants, this would come to more than 48 billion yuan, exceeding by far the amount of agricultural tax. This is the real revenue at the township government's disposal so that it can carry out the state's functions. In the cities, there are other kinds of development and exploration funds and investments in worthwhile undertakings set up by governments at all levels. Nobody knows how much money they take up, although a lot have been accomplished. For example, Tianjin built houses, roads, and parks; Beijing built bridges and neighborhood parks and various projects for the Asian Games. Similar situations are cropping up in large and small cities. Worthwhile projects are undertaken everywhere, but nobody knows where the money came from, and nobody cares to find out. How much has been spent? Based on everyday experience, I can only guess that no less than tens of billions yuan a year. This number is based on the fact that in 1989, society invested 413.77 billion yuan in fixed assets. This includes 62.376 billion yuan in budgeted investment, 21.68 billion yuan in bank loans, 66.562 billion yuan in rural investments, and 31.238 billion yuan in investments by urban residents. The total comes to 182.057 billion yuan, which leaves 231.713 billion yuan. If 70 percent of the extra-budgetary income was spent on fixed asset investments, it would come to 186.1 billion, which leaves 45.6 billion yuan for social apportionment. Thus we can estimate that the extra extra-budgetary income picked up by governments at all levels nationwide would amount to tens of billions. If we add up the three types of income, the total comes to 646.264 billion yuan, equivalent to 49.7 percent, or close to one-half, of that year's national income of 1.3 trillion yuan, which is by no means insignificant. (2) The income-boosting policy which allows everyone to make money lets us observe how the financial resources are being scattered and drained from a different perspective. Substantively, this policy will turn a large portion of such income into extra-budgetary and small treasure troves, and another substantial portion will end up as personal income in someone's pocket. This is manifested in the "three indiscriminations" and crooked businesses in society. How much of the national

income do the "three indiscriminations" take up? Nobody knows, but indiscriminate fee collection, apportionment, and fines have become public evils, and the dangers they bring to society and economy are obvious. Earlier, we listed the fees imposed by the central, provincial, and municipal governments and departments, but we did not list the fines and the "holdups." For example, it is reported that in a village in Shanxi Province's Yuci City, people must pay a toll to drive their cars through the village, on the bridges, or the makeshift roads, as well as a maintenance fee. In two months' time, the village has collected 700,000 yuan. The village party committee chairman and secretary bought their own cars with the money.² There are other similar incidents than can be cited here. The reason the "three indiscriminations" have become social evils despite repeated efforts to stop them lies in the current policies, and the financial policy plays an especially large role. For example, inadequate funding, fixed wage standards, and permission for the units and individuals to earn their own income are the root causes of the "three indiscriminations" and are also the major causes behind the decline in economic efficiency and reduced government income. (3) Enterprise contracting and inflation have shifted state-owned properties to individuals and have turned a large portion of the income generated by state-owned assets into contractors' income and through the contractors' into personal income. In addition, devaluation of state-owned assets has diverted state income to individuals.

The decentralization of financial resources and the draining of financial capacity are caused entirely by the existing policies. The current distribution policy is one that encourages private accumulation, and it also causes the state-run economy to be emptied while personal accumulation is being increased, and although society is increasing in wealth, the state is financially strapped. These phenomena completely violate the conditions for socialist economic development and must be changed. The solution lies in centralizing the financial resources and straightening out the distribution relationship between the state and enterprises and between the central and local governments. Specifically: (1) We should dissolve the extra-budgetary income and set up a centralized, graded public finance system and implement double-entry budget control. We should put all distributions related to the exercise of state functions under the state's centralized financial administration. (2) We should abolish the very damaging income-boosting policy and centralize the sources and the standards of fund supply. All superstructure organs should be barred from making money on their own, and all income received in the exercise of state functions must be handed over to the financial administration at that level—"turn in everything captured"—to ensure an honest government. (3) All income generated by the collection of statutory fees and fines should be centralized.

8. We should centralize the financial power and strengthen macro control. The draining of financial

resources and the decentralization of financial power are directly related. It is a policy issue and is also a theoretical issue, or we can even say that it is a wrong policy caused by errors in theory, because the people who formulated the policy were guided by the wrong theory, and that policy has resulted in the decentralization of financial power, and worse yet, power is decentralized in the name of centralization. The theory is wrong because (1) it maintains that income can be obtained through political power, and whoever has power is entitled to a share of the distribution, and whoever has power will have wealth at his direct disposal. As a result, from top to bottom, everyone who has power tries to make money. (2) It turns distribution into a means to make money, and if one increases income, it seems one can get richer, thus the more income-generating projects, the less income there is. (3) It speaks of macroeconomic regulation and direct control in the same breath. If we look at the process of decentralization of financial power, we will observe three situations.

(1) The State Planning Commission is interception power: today's State Planning Commission is not what it used to be. It in fact no longer performs its functions as the state's planning commission, that is, it no longer implements macro control and maintains overall balance. Instead, it is intercepting some of the financial and banking organs' power and is taking part in middle- and micro-management and is meddling with investments and commodity supply. As a result, the economy is chaotic at the macro level and lifeless at the micro level, and we have surpluses and shortages at the same time. The State Planning Commission is seizing financial power and meddling in such things as energy and communications funds and investment-direction tax outside of the regular state revenue channels.

(2) The departments are being dismembered. Today, all departments under the central government must make money on their own and take over some financial functions. This has separated the centralized financial distribution into different funds and the income contract system, severing the internal relationship between the financial and economic processes, and it has turned the state's financial function into the departments' function. Except for the petroleum, petrochemical, coal, iron and steel, nonferrous metals, railway, and foreign trade departments which have entered into contract by the whole staff, other departments have set up many so called development funds and exploration funds. Some funds are collected as surtax (such as education surtax), some are taken out of the profit and income from sales, which in fact means levying a circulation tax on top of the income tax. Today, it is also stipulated that some large- and medium-sized state-run enterprises must set aside 1-3 percent of their income from sales as development fund, and this levy is even steeper than the value-added tax. As a result, surplus value (that is, net income) which should be at society's disposal is being seized by the departments and enterprises under various pretenses, and state revenues naturally dry up.

(3) There is internal disunity, and the organs are impeding one another. Besides the planning commission's interception and the departments' dismemberment, the various functional organs within the financial system are taking apart the functions, tearing the financial function into pieces and turning them into personal power. The ministers, department heads, and bureau chiefs each seize a chunk of power commensurate with their rank, turning state functions into personal power bases.

The dismantling of financial functions reflects a certain unhealthy tendency in the socialist economic reform. As a result of this dismantling process, public finance is robbed of its economic functions, leaving it only with the power to supply funds for the nonproductive sectors. This is a manifestation of public finance's retreat from the productive sector. If we fail to change the existing financial system, if we maintain the current distribution pattern, whether the people agree or not, public finance will be pushed out of the productive sector. This trend has already become too obvious.

In short, we have two options before us: First, we can deepen the reform process and readjust the distribution pattern, centralize the financial resources, concentrate the financial power, and preserve the socialist economic base to make sure that the socialist economic reform will continue its socialist direction. The other option is to continue to dismantle the financial functions and squeeze public finance out of the productive sector and speed up personal accumulation in the name of socialism. We can use contracting, leasing, shareholding to complete the process of privatizing the public-ownership system. We can imagine what the future holds in this case. Thus, we must raise financial reform to a strategic height and realize that our financial state is what determines the future of our socialist economic reform. During the transition from feudalism to capitalism, Adam Smith did a lot of work to demolish the old system, and today some people are trying to do the same thing to the socialist economy. Everyone who tries to preserve socialism should see this tendency. We must resolutely protect the socialist public-ownership system and hold steadfast to our economic reform's socialist direction. To readjust the distribution pattern and reinstate the balanced budget are ways to vitalize the financial administration and are also an important part of upholding the socialist direction.

Footnotes

1. For the actual implementation of the budget, see RENMIN RIBAO 12 April 1991. RENMIN RIBAO, dated 27 June 1991, reported that the final accounts showed that 13.965 billion yuan were issued. Since not all final accounting figures are available, and in order to be consistent, this article will use only the budgeted figures.

2. The debt income for 1985 was 8.985 billion yuan, which was used to remedy 6.82 billion yuan's worth of financial deficits, and the balance of debt came to 2.162 billion yuan.

3. See RENMIN RIBAO 11 Aug 1990.

4. See RENMIN RIBAO 7 Aug 1990; JINGJI RIBAO 13 Feb 1990; JINGJI CANKAO BAO 17 Jul 1990 and 18 Feb 1991.

5. See JINGJI RIBAO 19 Sep 1990.

6. See RENMIN RIBAO 3 Mar 1991.

7. See RENMIN RIBAO 11 Aug 1990.

8. The contract, lease, and shareholding systems serve double-duty. They can be management formats under the public-ownership system, but they can also be means of personal accumulation. These economic formats are also widely used in capitalist economies, and we must be very careful about the direction of development of these management formats.

Causes, Solutions for Debt Chains

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[By Shao Qihui (6730 1142 1920): "Causes of, Solutions to, Current Debt Chains"]

[Text] Under the conditions of maintaining credit in commerce, debt relations between the enterprises is a normal socio-economic phenomenon. However, in recent years, the phenomenon of credit unworthiness in commerce has been exceptionally prevalent among the enterprises. Many loans have been granted but not repaid. "Loans have literally fallen dead on the spot." When one party fell into debt, it dragged along others and caused a chain of malignant reactions. This has created serious difficulties for the enterprise's normal production and operation activities, and thereby has ensnared a series of economic problems.

At the end of 1987, debts incurred by enterprises in the country amounted to 27 billion yuan. At the end of 1989, they increased to 124 billion yuan. In 1990, the state paid out 50 billion yuan to start the overall clearing of debts throughout the country. Some 160 billion yuan of outstanding accounts between enterprises were settled, but actually, settlement and new incurrence of debts occurred simultaneously; in that year, not only did the total amount of bank loans not decrease, but they actually exceeded the plan by 105.7 billion yuan. Also, the aggregate amount of outstanding accounts between enterprises and people increased 20 billion yuan over the preceding year. Not only was there no solution or breaking of the debt chains, but they also increased in weight all the time. Since 1991, the situation has worsened. The planned input of investment funds did not

happen while outstanding amounts formed by the stockpiling of finished products and losses incurred by enterprises increasingly grew in amount. By the end of March 1991, the amount of fixed assets investments that was in arrears was as high as 50 billion yuan. In Heilongjiang Province, the problem was even more prominent. At the end of 1987, the gross amount of debts of enterprises in the province was only 1.7 billion yuan, but in 1990 it increased to 19.97 billion, at the end of April 1991 it rose to 23.64 billion, an increase of 3.7 billion over the early part of the year. Of this, the amount owed by other people was 13.26 billion yuan, while that owed to other people was 10.38 billion. With regard to the debt relations between localities, the amount due Heilongjiang Province from outsiders was 7.66 billion, whereas the amount due outsiders from the province was 4.42 billion. This formed a net credit balance of 3.24 billion yuan, and made the province one of the major areas in the country with net creditor rights. The damage suffered by large and medium enterprises was even larger. The creditor position of only 10 large enterprises in Heilongjiang Province amounted to 2.93 billion yuan, or 22.1 percent of the total creditor rights of the whole province. Of this amount, the outstanding amount owed by outside provinces was 2.09 billion yuan, being 71.3 percent of the total creditor position of the province. In the enterprises affected most by this indebtedness from the outside, the order of production and operation suffered serious consequences. They could only depend on bank loans to maintain production and had to shoulder an increasingly heavy interest burden.

The dangers of a heavy debt chain to the national economy are extremely obvious. First, it caused a serious dislocation between the flow of funds and the flow of commodities. The interchange of a considerable portion of funds and commodities could not be realized. This caused obstruction to the reproduction cycle and lowering of the economic effects. Second, it was a serious drawback to those enterprises which have produced and operated well, particularly in the case of large and medium state-run enterprises. Third, it enabled a portion of the enterprises engaged in producing "long-line" products and low-quality and low-level products to continue maintaining production by dragging out payments for goods. On the other hand, enterprises that produced goods that are urgently needed by society and are of a high level and good quality could not promptly expand production because of the inability to obtain payment for their goods. This caused great difficulties in readjusting the industrial and product structures. At the same time, it caused difficulties in promptly changing the situation of the lack of coordination between production and marketing and of the poor condition of the economic effects. Fourth, it delayed the process of establishing the operational mechanism for integrating a planned economy with market regulation. It caused difficulties for the plan's realization, and at the same time it caused confusion with market regulation, making it difficult for the enterprise to proceed with production and operation.

Formation of debt chains is not caused by conflicts in creditor rights and indebtedness, but principally by the long-term existence of deep-rooted contradictions inside the national economy. It is the reflection of abnormal operations in certain stages of the national economy.

1. The main source of debt chains is the imbalance in the gross volume and structure. The current debt chain is a delayed reaction of economic over-heating in the past, particularly before the current reform and improvement. The overly large stall in fixed assets investments—which has exceeded the capability of the national strength, plus redundant construction and irregular distribution of the industrial network, increased the gross demand for investments and made large amounts of funds distributed among the many enterprises. Although some enterprises have formed their production capability, they have worked well below capacity, produced poor effects, and found it difficult to repay loans. The projects retained after the current depression of investment demand cannot bridge the gap in funds in the near future. Also, with the lowering of the market temperature, the gaps can more easily be converted into the delayed payments for buying and selling of goods. After certain redundant construction projects go into production, in the new market situation, stockpiling of products will naturally become more serious and outstanding. As a result, in order to continue to maintain production, certain enterprises can only first depend on bank loans, and second, delay payments of money owed to other enterprises. In recent years, although the state has suitably expanded the investment demand to promote construction of the major projects, due to the effects of such factors as the shortage of funds, the situation where investment is not in regular order has continued. This has made the situation of the delay and nonpayment of money for buying and selling goods increasingly serious.

2. In the process of depressing investment demand, certain "long-line" projects, which should have been depressed were not effectively depressed. The result was that after the projects were completed, their products could not be sold, products had to be stockpiled and loans could not be repaid. Certain projects which should have been retained were not fully protected or retained, resulting in the restriction of effective demand. Due to the inadequate supply condition of funds and materials, certain other projects were at first forced to "step down," but were subsequently restored and resumed construction or operation. This "up-and-down" process seriously widened the gap for funds. The only way to continue construction and/or operation would be to rely on more bank loans or further delay the payment for goods purchased from other enterprises.

3. Imperfect legislation and loose discipline in governing account settlements have caused confusion in commodity exchange transactions and the orderly and prompt settlement of outstanding accounts. The intent to delay for a long time the settlement of accounts for purchasing goods is a law-breaking act, but the leadership of many enterprises have a weak concept of law and

credit and cannot consciously accept contractual restrictions. In commodity transaction relations between enterprises, the problem of imperfection in the legal system and procedure clearly exists. For example, at times transactions are not accompanied by agreements. Where there are agreements, no provision is made for penalties in the event of a violation of the agreement's terms. As a result, there is no way of ensuring prompt settlement of accounts for goods delivered. In enforcing the economic law, there is the problem of nonobservance and loose enforcement of laws. The result is that, in commodity transactions, nonpayment or delayed-payment of accounts frequently happens. Actually, such happenings cannot be prevented beforehand or rectified subsequently. Moreover, local protectionism plays an ugly role. Some local banks do not follow the rules of promptly paying the seller of goods, but rather help the local buyer in delaying or even neglecting settlement of accounts. This is an important cause for the growing prevalence of delayed settlement or nonsettlement of debts in society at large.

4. Failure to thoroughly implement the industrial policy and existence of irrational industrial and product structures are also deep-seated causes for the formation of debt chains. In the case of products whose development is encouraged and permitted by the industrial policy, because of the lack of corresponding and coordinating measures, enterprises cannot obtain sufficient funds for product development and hence cannot expand their production scale. Yet in the case of products whose development is not encouraged and not permitted by the industrial policy, certain enterprises can contrarily procure sufficient amounts of essential elements of production to continue their production. Under such conditions, nonmarketable products cannot be eliminated, and will tie up large amounts of energy and raw materials. These products cannot be sold, and have to be stockpiled. At the same time they consume large amounts of funds, making the enterprises unable to settle their outstanding accounts.

5. In the course of the changeover from the old to the new structure, the special stature of macroeconomic regulation and control breeds the social environment for the growth of debt chains. During the transition from the traditional structure to the new structure, there is an obvious weakening of the administrative measures representing mandatory planning. At the same time, due to unhealthy market growth, the role of market regulation cannot be normally displayed. Thus, certain gaps appear on the side of macroeconomic regulation and control which not only cause imbalances in the economic gross volume but also make it difficult for the industrial and product structures—which sorely need readjustment—and the investment structure and credit and loan structure closely related to them to progress and develop in the direction of rationalization and amelioration. Thus, once the channel of the enterprise borrowing from the banks is blocked, enterprises' insufficient ability to pay will be clearly exposed and the atmosphere of mutually delaying settlement of accounts will appear.

In view of the complicated nature of the causes of debt chains, liquidation and clearance of debt chains should proceed from many sides. Effort should be devoted to the organic integration of the various measures, making them join forces. In the course of the liquidation, it is necessary to firmly insist on the guideline of "proceeding from the source and taking major but limited steps forward," combining the clearance of old debts, preventing the forming of new debts, and also combining clearance of debts and enhancement of economic effects. Concretely speaking, the following lines of work should be performed well:

1. Based on in-depth survey and research, step up the clearance of debts caused by the three major factors of fixed assets investments "not assuming their proper status," enterprise deficits, and stockpiling of finished products. However, in doing this, adhere to the industrial policy and production and marketing conditions and selectively accord treatment to projects and enterprises concerned selectively. First, in the investment area, it is necessary to proceed from clearing this source of the gap in fixed assets investments. According to a survey in the northeast area, debts on the side of capital construction roughly account for 25 percent of the gross volume of debts. Since indebtedness caused by the gap in fixed assets investments is one of the end links of the debt chain, if the construction unit can repay its debts, it will effectively facilitate the solution of the whole problem of debts. Hence, aside from those projects whose products suffer from stagnant sales and whose prospects are not at all bright, we must be determined to stop or slow down their construction to prevent the continued ineffective input of funds and resources. At the same time, for projects whose products enjoy a strong vitality and are readily marketable, and projects on the sides of energy, communications, postal and telecommunications, and raw materials, central and local governments should jointly adopt measures—such as increasing and replenishing the issuance of loans, debentures, and so forth—so that investment may "assume its proper status" as soon as possible, form a new ability to pay, repay the outstanding amounts incurred in the use of raw materials, machinery and equipment and in construction work, and thus open up a portion of the debt chain. Second, for enterprise losses and deficits which are of a "policy" nature, financial subsidies should be promptly resorted to. If local finance is incapable of providing the subsidy, temporary measures may be adopted, such as granting bank loans to local finance to help solve the problem. When enterprise deficits have lasted for many years and are outside the realm of policy, and when there is little chance for the enterprise to be on its feet again, we should effect an early solution by such measures as closing, suspending operation, merging, and changing the enterprise to other lines of endeavor. In the event that the enterprise's assets cannot offset its liabilities, then, under the conditions of setting up an adequate social protection system, the enterprise should be declared bankrupt according to law. Third, regarding debts caused by stockpiled finished

products, in the case of enterprises whose products have been unmarketable for years but which have meanwhile continued production and caused stockpiling of products and losses, they should close their doors, suspend production, be merged with other enterprises, or shift to other lines of work, or even declare bankruptcy. In the case of energy, raw materials, basic electrical machinery products, and daily necessities which have been in short supply for a prolonged period, the governing principle should be not to allow the production capacity to lay idle. In the case of enterprises whose product sales have temporarily stagnated, the enterprises should be provided with loans at preferential interest rates in order to increase the circulation of their products and enhance their reserve funds. They should concentrate more on adhering to state-run commerce and materials supply enterprises. Their circulating fund reserves should be expanded in a planned manner and the holding up of funds by their finished products should be reduced to the minimum.

Simultaneously with devoting efforts to liquidation of indebtedness, importance should be attached to preventing new gaps in funds. In this regard, it is especially important to resolve the problem of the enterprise's self-owned circulating funds. In the case of new projects in operation, there should not only be no gap left in the capital construction investment, but circulating funds must also be prepared well in advance in accordance with demand. In particular, the projects' self-owned circulating funds should be up to the stipulated ratio. With regard to the problem of enterprises being generally short of self-owned circulating funds, we should start from reality and adopt appropriate measures to make enterprises replenish and increase their self-owned circulating funds.

2. In order to open up the road to clearing debts and preventing new debts, there should be close liaison between production and marketing, while various kinds of sales promotion schemes should be formulated and put in force. We should continue to strengthen the position and role of enterprises engaged in commodity circulation and marketing. We should fully display the smoothing out and promotional role of circulation in production and consumption to ultimately realize the value of products by means of the circulation process. Realizing the smooth flow of commodities naturally reduces the stockpiling of goods, and this will help in clearing indebtedness. The production enterprise should do the job of marketing well but, more importantly, it should rely on the circulation channel provided by the commercial and goods-handling systems. In particular, it should have long-term and stable contractual relations with the latter to enable production and marketing relations to become stabilized and fixed and to function in a planned manner, thus facilitating the realization of the value of products.

At the same time domestic trade is activated, we should attach importance to developing foreign trade. In continuing with the opening of the coastal regions, we

should simultaneously quicken the steps in similarly opening border regions. By pushing the opening to the outside world with various special features and on an even larger scale than before it will be possible—through integration of domestic and external trade—to maintain the benign progress of production and circulation. Regarding the western and northern regions, we should actively push economic and trade development with the Soviet Union and countries in East Europe, expand the scale of imports and exports, open up the channels for sale of commodities, and, by reducing large stockpiles of goods in warehouses by means of external sales, solve the problem of outstanding accounts.

3. Clearance of debts must be closely combined with readjustment of the industrial and product structures. At present, it must be principally integrated with the activities of penetratingly pushing the development and progress of the "year of quality, variety, and efficiency." We must emphasize making economic effects the center, change the measure of simply seeking growth in the rate of output value and volume, but proceed from actual market demand. If an enterprise's products are marketable, the enterprise should be given support and encouraged to increase production. On the other hand, if there is no market demand for its goods, then it should resolutely curtail or even stop production to prevent the stockpiling of finished products. Seen from the long-term angle, readjustment of product structure must be made on the basis of market forecasting and a rational industrial policy, making each and every enterprise—particularly the large and medium state industrial enterprises—set up the product strategy of "production generation, reserves generation, development generation, and research generation," and make a dynamic readjustment of the product structure. This is the fundamental plan to prevent the stockpiling of finished products and to prevent enterprises from owing each other money for buying and selling of goods.

4. We should improve and perfect the settlement form, strengthen the legal measures concerning settlements, and ensure a good performance in clearing old debts and preventing new ones. It is necessary to revise and improve the settlement form of "receipt and payment by proxy," and, through its organic union with the use of commercial bills of exchange and bank settlement drafts, improve and perfect the financial settlement system between enterprises. In using the form of "payment and receipt by proxy" to clear off old debts, particularly when beginning with the commencing debtor, there must be a provision permitting an increase in the loan scale so that when enterprises are temporarily short of funds, they may use commercial bills of exchange and bank settlement drafts as mediation means, but the payer must pay interest charges and penalty fees for delayed payment.

We must criticize the ideology that it is perfectly reasonable to owe people money; we must make people understand that repaying a debt is an unalterable principle and that to not repay a debt or to delay repayment without reason is an unlawful act. At the same time, as soon as

banks from dealing in securities. Thus, the banking industry moved a giant step closer to providing full services.

The pace of Japan's liberalization of the banking business is not as great as that of the United States. Although the new banking law implemented in April 1982 permitted banks to put a foot in the securities business, it was only on a limited scale. For example, it permitted banks to buy and sell negotiable securities, but it limited them solely to buying and selling of negotiable securities for the purposes of investment or against customers' written orders for securities and final settlements. Currently, Japanese banks are trying to enter the securities business further.

3. *Hong Kong.* Hong Kong's banks do mostly three kinds of business: (1) take in savings, (2) issue loans, and (3) provide related services. Not only has the range of their savings and loan business expanded steadily, but the range of activities they conduct in the name of related services is dazzling. From the standpoint of their recipients, these services may be divided into two broad categories. In one category are the special business services they provide individuals. These include the following: management of leases and rent collections for customers; buying and selling real estate and buildings; and preparations to construct housing, rental of safe deposit boxes, setting up "special plan accounts" for monthly payments of salaries on behalf of customers, various separately handled plan budgets to be used for property purchases, vehicle purchases, travel, children's education, and house rental. They also provide "automatic account transfer services" for staff members and workers, receiving their customers' salaries and simultaneously handling automatic payments for savings and transfers (gas, water, and electricity payments, and other bills). The other category is an orientation toward special services for industries and businesses. In addition to handling overdrafts that are more flexible than run-of-the-mill loan business, most Hong Kong banks also handle various types of remittance business, arranging for the marketing of companies' share certificates, and providing services in the form of handling promissory notes, insurance, credit, consulting, and financial advice for importers and exporters. Some financial corporations also buy and sell certificates of deposit, discount commercial paper, prepare, plan, and underwrite share certificates, debentures, and commercial paper, convert European currencies and the United States dollar, and deal in gold. One might say that they provide all-encompassing services, nothing wanting.

2. New Developments Today in Large International Banks' Providing of Full Services

The range of services that large international commercial banks provide has steadily expanded in recent years to become more comprehensive and complete. These banks not only do traditional commercial bank business but engage in other financial activities as well, such as investment bank business, mortgage bank business, the insurance business and, to a certain extent, even business

of a nonfinancial nature. This business of nonfinancial nature includes the leasing business, computer services, investment advice, and professional guidance, etc. They are also steadily offering new business services to satisfy the different needs of their customers. For example, take the American Citicorporation whose business activities include institutional banking, including both individual bank business and investment bank business. In recent years, this corporation has striven to diversify its institutional banking business, providing electronic trading and intelligence services worldwide for petroleum, petroleum product, and petrochemical businesses, while also providing customers interest rate and currency transactions, and leasing services. In the banking business for private individuals, this corporation has mostly provided savings and loan services, insurance, and bank checks, credit cards, stock brokerage services, buying and selling of securities, and investment management services. Meanwhile in Germany the ability of the banks to provide an increasingly diverse range of services in the retail sector has brought about a swift development of the retail business. Their individual customer business is changing with each passing day. One can say without exaggeration that the increase in the corporate sector's need for credit and the increase in the capacity of the family sector to provide savings is inaugurating a "great age for small savers" in the German banking business. Clearly, the full service that the banking business provides to satisfy the diversified needs of customers are immensely popular with the public; consequently, banks will see even more rapid development.

3. Advantages of Full Service Banks

Generally speaking, the full service banking system benefits customers, banks, and the economy. For individual customers, the advantage that full service banks hold in providing full financial services means that the individual customers do not have to deal with several financial institutions. In addition, when the banks understand all of their customers' financial decisions, not only can they provide them with savings accounts, but also with wage and secure accounts; thus, they can provide investment recommendations and financing that is very much in keeping with individual customer needs. If they were a specialized bank, they could also provide recommendations to individual customers within the limits of their own bank, but this would not necessarily be the best choice as far as the customers were concerned. However, full service banks can choose from the gamut of financial services the one most suited to a customer's needs.

For business customers, the ability to obtain full financial services from a bank is even more wonderful. They can obtain from a single bank any of the diverse services they need. Businesses that are able to issue debentures and that desire to expand their capital through the issuance of debentures need not contact several financial institutions for this purpose. The close cooperation between a debenture-issuing financial institution and a debenture-issuing enterprise enables the financial institution to make an accurate judgment about the business

financial situation, how its business is doing, and its quality control. Thus an enterprise can get all kinds of help from a financial institution.

In addition, the advantage of full service banking activity for a bank itself lies in its being able to offset the results of businesses in one sector against those in another. This increases the consistency of the bank's profits, and it increases the security of assets and customer confidence.

II.

1. Full Service Banking Is an Inevitable Need in Pudong's Development and Opening to the Outside World

Why do we suppose that full service banking is an inevitable need in Pudong's development and opening to the outside world? This is based on thinking in the following three regards.

First is in terms of guiding thought. On the basis of guiding thought for the development of the New Pudong District, an international and modern orientation will be adhered to in order to bring in foreign capital as the main way of raising funds. The new district's overall performance will be improved by linking up domestic and foreign commodity and key production element markets, and by perfecting the economic operating mechanism through the reconciliation of differences between customary international practice and the domestic management system. In short, the New Pudong District's development will be externally oriented, multifunctional, and modern.

Second is in terms of policy measures. By increasing the attractiveness of Pudong for foreign capital, foreign businessmen, and compatriots from Hong Kong, Macao, and Taiwan can directly invest in the district, including in industry, transportation and communications, finance, information, and the real estate business. They may also invest in the building of high technology parks. Foreign businessmen may also issue debentures and share certificates, and trade in negotiable securities in both the district and abroad. Without doubt, the new district, the new situations, and the new methods will necessitate banks' providing new services.

Third is in terms of fund raising, financing and making final settlements. The New Pudong District has nearly 100 class two branches of various specialized banks and subordinate financial institutions. The existing finance and banking is not bad to be sure, but with the gradual construction and development of the New Pudong District, the increase in producing enterprises, and an increase in the scale of production, the need for capital will be huge. This will urgently require that financial institutions raise capital and do financing through multiple means at various levels and through numerous channels in order to insure the availability of funds. In addition, as international trade and international contacts increase, inevitably financial institutions will be needed to help with a multitude of transnational currency receipts and payments.

To summarize the foregoing, the provision of full banking services has become an inevitable necessity for Pudong's development and opening to the outside world.

2. Ideas on Full Banking Services for Pudong's Development and Opening to the Outside World

Since April 1990, 10 Chinese-owned financial institutions have established branches in Pudong. These include the Bank of China, the Bank of Commerce and Industry, the Bank of Communications, The Bank of Agriculture, the Shenzhen China Merchant Steamships Navigation Bank, the Shanghai Investment Trust Corporation, the Chinese People's Insurance Corporation, and the Pacific Insurance Corporation. Acting in accordance with preferential state policies for Pudong's development and opening to the outside world, some foreign-owned or Sino-foreign joint venture financial institutions have set up shop in Pudong. Within the short period of just several months, two Sino-foreign joint venture financial corporations have been established there, and a Sino-foreign joint venture international bank has been approved. In addition, six foreign owned banks, including City Bank, have been authorized to establish branches and financial vanguards in Shanghai, thereby creating a fine fund raising and financing environment for Pudong's development. Currently 168 projects having a total capitalization of \$3 billion and using \$1.5 billion in foreign capital are being negotiated and built in the New Pudong District. Thirty-six of them have approved contracts. Taken together with the previous ones, Pudong now has 73 three kinds of partially or wholly foreign-owned enterprises. (Footnote: "Cultivation for a Fine Tomorrow," JIEFANG RIBAO, 17 April 1991, p. 1) It can be predicted that the burgeoning financial business that provides full financial services will add wings for a takeoff to the Pudong District's development and opening to the outside world. So how should Pudong's financial institution's full banking services be envisioned? We believe as follows:

1. Need for the opening of new fields in the savings and loan business.

The realities of Pudong's development show that a continuation of traditional financial services in Pudong will not do. Take the savings and loan business, for example. As the modern economy has developed, its form and scale has widened astonishingly. Enterprises in which foreign businessmen have invested will be a substantial economic component of the New Pudong District, in addition to which new methods such as the wholesale leasing of land and the retention of spot exchange will require a whole package of capital and foreign currency savings and loan services for the amounts, kinds of currencies, and types of savings and loans involved. Therefore, new approaches will be required for the different kinds of savings and loan services, including individual savings of capital and foreign currency, business savings and loans, the buying and selling of foreign currency, equalization, and the formation of Chinese-capitalized and joint venture financial group credit funds, etc. Recently the first

Chinese financial group made up of 44 Shanghai financial institutions was a forerunner in assembling funds and spreading risks to provide diversified loan services for the 450 meter high "Pearl of the East" television tower (requiring an investment totaling 200 million yuan including \$10 million). (Footnote 2. "Shanghai Financial Institutions Organize Financial Group To Provide Loan for Television Tower Project," JIEFANG RIBAO, 11 April 1991, p. 1) In addition, services in the form of export packing loans, discounting of commercial paper, mortgage loans, seller's credit, overdraft services, and documentation services will gradually come into being to meet the need for various financial services.

2. Promoting a New Takeoff in Trust Counseling Services

Pudong's development and opening to the outside world presents dazzling prospects for a takeoff of trust counseling services. Not only can trusts effectively soak up scattered funds, transforming them into funds that are available for a fairly long period of time, but they can raise foreign capital for China in international financial markets. Furthermore, the development of counseling services will provide reliable assurance for scientific decisions about the development of Pudong, thereby giving powerful support for the development of Pudong.

The range of trust counseling services is very broad. In addition to trust investment, trust loan, and international leasing services, counseling services and warranty services are also provided. These services are highly consistent, flexible, and varied. The various kinds of counseling, credit checks, commissioning, representation, and leasing can suit Pudong's needs for investment, production, commodity flow, and consumption in the development process, and new services and new creative financing can be initiated as new circumstances require.

3. The real estate business will play a crucial role in Pudong's development and construction.

"Various Regulations on Land Administration in the New Pudong District of Shanghai" specifically provides for a system for the use of state-owned land for compensation.

Ways for selling or transferring land use rights or ways for collecting land use fees permit those needing land to gain land use rights. Development of the New Pudong District is bound to cause a rise in land values. Plans call for the construction in the New Pudong District of 2,000 apartment units or high quality commercial dwellings, as well as a large number of dwellings for residents. Development prospects show that the New Pudong District will be a most favored real estate investment area. This will require the banking industry to invest in development, form joint venture partnerships, and to act as agents in construction, taking part in the overall development of real estate as well as providing savings and loan funds for the purchase and construction of houses. It will take an active part in real estate financing through real estate trust investment and commercial house leases.

4. Vigorous development of securities services to raise funds needed to move ahead with Pudong's development and construction.

The investment in Pudong's development during the 1990's will remain huge during the Eight Five-Year Plan. Sole reliance on the central government and local government treasuries, and on self-provided investment will be vastly insufficient. Thus, full use of negotiable securities to raise funds will be a long-range task for the Pudong banking industry. Thanks to the vigorous development of the securities business resulting from the computerization of financial services, not only can huge amounts of funds be amassed for use in the development of the New Pudong District, but the cost of these funds can also be lowered, which will provide a more consistent supply of funds. In thinking about the Pudong securities business, we believe two avenues should be considered. First is an increase in the number of securities business network outlet points to expand the range of business. New kinds of services should be added to the existing ones. Examples include agents for the issuance of foreign currency-denominated negotiable securities, and the opening of transfer services for various kinds of foreign currency-denominated negotiable securities, etc. At the same time, financial institutions must also invest in stock share offerings, thereby promoting the rise of entrepreneurial blocs. Second is the need for a computer network to provide computerized accountings, and a video display system showing securities market dealings. In addition, more thinking should be done about using Pudong's natural resources and land for the creation of financial instruments such as land use rights mortgage bonds, land income bonds, and transferrable land bonds, as "transferable bonds that can be freely converted into share certificates within a certain period of time."

At the end of 1990, Shanghai's first securities exchange since the founding of the people's republic appeared. As of the end of the first quarter of 1991, citywide transactions in negotiable securities totaled 1,431 billion yuan (one way valuation). This included 829 million yuan at the securities exchange and 620 million yuan handled by securities companies themselves, showing that the establishment of the Shanghai Securities Exchange plays a marked role in promoting an all-around increase in securities exchange business. Currently all financial securities institutions are hurriedly preparing to set up securities exchange branches in the New Pudong District. It is very evident that in the not too distant future the securities business in the New Pudong District will take on a brand new appearance right before our eyes.

5. Acceleration of progress in modern electronic technology to provide customers fast, prompt, and convenient final settlement service.

Speed, safety, and high efficiency in international and domestic trade settlements is a basic requirement for the banking industry in the development of Pudong. The economic complexities and the increase in the amount of trade matters, as well as the numerous kinds of settlements involved pose new demands on bank settlement services. Speed, safety, and high efficiency cannot be attained without the development of modern electronic technology. Development requires not only that the

banking industry in the New Pudong District computerize the processing of its ever increasing trade settlement receipts and payments but also that it be linked in a network with Puxi, all major port cities throughout the country, and even internationally. For example, it should become a part of the worldwide banking and finance electronic association (SWIFT for short). In this way its settlement processing could become regularized, standardized, and consistent with international practice, as well as highly efficient, secure and economic. In addition, large computers and automatic teller machines should be used for current savings accounts, the deposit of wages in savings accounts, payment of utility bills, credit cards, POS electronic payment systems, and for automatic transfers out of savings accounts into settlement accounts, and such new electronic services to lay the foundation for a financial supermarket in fact as well as in name.

To summarize the above, the offering of complete services by large international commercial banks has become an international trend of development; that requires an attendant response from the Pudong banking industry. Only in this way can Pudong's development and opening to the outside world become imbued with vitality. From another angle, the exemplary effect of the Pudong banking industry's "experimental fields" for financial system reform will provide great impetus for the transformation and development of banking in Puxi. It will also serve as a useful test for reform of the domestic financial system. If we make up our minds to do this, not flinching from difficulties, its significance will extend far beyond the practice and transformation of Pudong's banking industry.

Xiamen Promotes Real Estate Sector Development

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08:21 GMT 28 Nov 91

[Text] Xiamen, November 28 (XINHUA)—The real estate business in the port city of Xiamen, one of China's special economic zones (SEZ) which is located in east China's Fujian Province, has grown fast over the past decade as the city completes over one million square meters (sq m) of floor space of housing a year.

Over the past ten years, the city has constructed a big group of buildings with a total floor space of over 10.38 million sq m, 4.4 times the figure for the 30 years between 1950-1980. In addition, the city's per capita residential space has risen from 4.35 sq m in 1980 to 7.71 sq m at present.

As part of an effort to promote the development of real estate businesses, the city government mobilizes the efforts of state, collective and private sectors. It sells land use rights to them and let housing prices fluctuate according to market demand.

At present, the city has 87 such enterprises engaged in the real estate business, which have remitted over 300 million yuan (about 57 million U.S. dollars) in taxes to the state over the past three years.

Real estate enterprises operate under local preferential policies and raise funds for construction projects by using loans, issuing construction bonds, attracting foreign investment, or collecting payments for housing in advance.

Over the past decade, the city has altogether invested two billion yuan in real estate construction. One industrial district and 34 residential areas have been completed.

LABOR

Article Views Economy of Reservoir Migrants

HK2511053391 Beijing RENMIN RIBAO in Chinese
1 Nov 91 p 3

[Article by Xu Hesen (1776 0735 2773) of the Office on Resettlement of the Xinanjiang Reservoir Migrants of Chun'an County, Zhejiang Province "Causes of and Countermeasures to Slow Economic Development of Reservoir Migrants"]

[Text] The so-called reservoir migration economy generally refers to the economic relations made up of the various processes of production, exchange, distribution, and consumption accompanying migration triggered by the construction of reservoirs. At the same time, it also includes the condition, level, and organization of migrants' productive force. Over the past four decades, China has built more than 80,000 reservoirs (including hydropower stations) of various sizes, and they have resulted in more than 10 million migrants. Under the care and concern of the party and the government, reservoir migrants did enjoy economic growth, but the income of a considerable number of migrants still has to come up to the average level of the country's per capita income. While reservoir migrants have made immense contributions to the "four modernizations" efforts, they remain economically backward and relatively more impoverished, highlighting a sharp contrast between their endeavors and their conditions. It is therefore imperative to analyze the causes seriously, and to come up with solutions to the problem.

In my view, there are two main reasons explaining the slow economic development of reservoir migrants. 1) Changes in geography and environment make it impossible for rural migrants of reservoir areas to translate their labor into equivalent value, thus affecting their economic development. On the one hand, resources for the means of livelihood and production (such as mineral resources and arable land) have dwindled. Unlike in the past, population is now higher while less land is available. That land that is available is more mountainous and less arable. On the other hand, after the reservoirs are constructed, poor transportation conditions in particular adversely affect the transport of goods and impede the economic growth of rural migrants of reservoir areas to varying degrees. 2) The rate of growth of productive forces is determined by an improvement in the quality of productive factors and by the effective combinations of the various factors. Meanwhile, conditions for the development of productive forces in rural

migration areas and non-migration areas of the reservoir regions are distinctively different from each other. First, migrants undergo a fairly long process of adaptation, readjustment, and reorganization, from the time they move to the region until they develop production. Second, after migrants move away, the tools of production they bring with them may not be applicable in their resettlement areas. The production experience and labor techniques they possess may also not be given full play in their new settlements. These undoubtedly constitute unfavorable factors to the economic development of the reservoir regions. Third, migrants are confronted by the question of reorganizing the various factors of productive forces when they move and resettle. If this reorganization is scientific and logical, it will contribute to the growth of productive forces. But in fact, the movement of migrants over the past 30 years was almost always dictated principally by planned or command resettlement, with very little consideration given to the rational combination of the factors of productive forces, and even less to effective combinations. This has often turned out to be a congenital defect in the development of the productive forces of reservoir migrants.

Now, given the unfavorable geographical environment and the unfavorable factors of productive forces, can rural migrants be settled in the reservoir regions and the economy of these regions promoted? The answer should be affirmative. This is because this complies more to the mental state of migrants who are reluctant to stray too far away from home. On the other hand, in the light of the high population, little land space, and economic underdevelopment in our country, the resettlement of migrants in the same reservoir regions complies with the spirit of "spend less money, do more deeds," and should remain one way of resettling migrants in the future. As long as everyone exerts his or her best effort, the unfavorable factors mentioned above are not unconquerable. Specific countermeasures are as follows:

1. Firmly embark on the road of development-oriented resettlement of migrants. In the past years, migration was often achieved by paying compensation to residents whose land was taken over or whose houses and production tools were inundated, or by transferring them to other places and meting out resettlement funds. This method was often unsuccessful, though. If the money were used instead in a development-oriented resettlement, it would be more wisely spent in productive enterprises, such as the operation of factories, farms, orchards, and transportation services. For instance, with the assistance and support of concerned departments, Chunan County, which suffered the most from inundations by the Xinanjiang Reservoir, established guidelines and policies to "emancipate the mind, ease policies, promote production, and carry out on-the-spot settlement" and "shift from grants to loan allocations, and from settlement-oriented migration to development-oriented migration" in the first half of 1985. Through continuing efforts of exploration and refinement in recent years, even though migrants in the reservoir regions still have a fairly low standard of living and still

suffer from much hardship, their living standard has reached and even surpassed the average standard of the entire county in the four consecutive years from 1987 to 1990. The migrants do support the shift from "blood transfusion" to "blood production."

2. Efforts should be taken to make equivalent labor of migrants and non-migrants share the same value through the adoption of preferential policies and other economic compensatory methods. Since rural residents in the reservoir regions migrated to make way for state irrigation and hydroelectric construction projects, the losses that they suffered because of poor geography and environment should be compensated by the state. Compensation may be considered in two ways: first, compensation in cash or in goods, and second, compensation by preferential policy. The principle of compensation in cash or in goods should be linked with the economic performance of the hydroelectric station. Losses suffered by the rural migrants in the reservoir regions as a consequence of reservoir construction may be compensated by a reservoir region maintenance fund that is partially or wholly provided for by the station. Compensation by preferential policy refers mainly to compensation through reduction of tax revenues and other methods. The aim of these two kinds of compensation is to ensure that the same amount of labor will translate to equivalent value before and after the creation of a reservoir region, thereby actively boosting the economy and hastening the end of the existing economic poverty in the region now.

3. Readjust the industrial structure rationally, improve the geographical environment, and boost economic performance. To promote the economic conditions of rural migrants in reservoir regions, it is necessary to first overcome the concept of a single-commodity economy and to strengthen the concept of commodity economy. In particular, as rural areas develop rapidly from a product to a commodity economy, it is necessary to seize the opportunity to gradually transform the unfavorable factors of the geographical environment into favorable factors, to readjust the industrial structure appropriately, and to promote a commodity's advantages according to different geographical conditions. At the same time, efforts should be made to open new outlets for the labor force and strive for better economic performance. With their numerous mountains and rivers, the reservoir regions boasts an exceptional edge to develop "mountains and rivers economy" as they have the elements necessary for a shift to a diversified production-operation industrial structure, including agriculture, forestry, animal husbandry, supplementary industry, and fishery. "Cultivation and planting first, followed by reprocessing" allows for the commercialization of agriculture and animal husbandry as well as for evolution from crude production and operation of primary products, like raw materials, to processing and manufacturing activities. This opens a new way for the development of production by rural migrants of reservoir regions.

4. Assist migrants of reservoir regions in promoting transportation and education in order to bolster their

ability and potential to boost production. The rebuilding of transportation facilities of rural migrants from reservoir regions should be carried out before resettlement so that they will have excellent transportation favorable to economic growth. The old concept of "compensation according to the amount of land inundated" which dominated previous efforts at rebuilding transportation facilities should be erased. If this is used as the guiding principle behind the compensation of inundated transportation facilities, it will be very difficult to make transportation conditions better from those existing before the completion of reservoirs. Therefore, the question of preferential policy also exists in so far as the rebuilding of transportation facilities is concerned. Furthermore, the building of reservoirs, deterioration of geographical environment, and the very minor preferential terms offered to reservoir regions in the past have led to the outflow of skilled manpower. This has aggravated efforts to rebuild educational facilities. In view of the great difficulty in educational funding, in particular the education of the children of rural migrants has become even more difficult. Consequently, the education of rural migrant children in the reservoir regions should depend not only on the migrants themselves, but more importantly on a preferential policy designed to improve educational conditions in order to support the development of production by rural migrants of reservoir regions.

In short, to promote the economic growth of rural migrants of reservoir regions, it is necessary to first rely on policies regarding conditions with which to mobilize and maintain the initiatives of migrants to develop production. Second, it is necessary to rely on science to boost the qualitative improvement and effective combination of the factors of productive forces. By building on the existing foundation, creating a favorable environment, and keeping an eye on "boosting the basics," more efforts should be made to bolster the "blood reproduction" functions of the rural migrants of reservoir regions in promoting the economy so that they can move out of poverty and embark on the road of prosperity.

Workers as Source of Enterprise Revitalization

92CE02294 Beijing GONGREN RIBAO
in Chinese 22 Nov 91 p 3

[Article by staff reporter Wu Mingfu (0702 2494 0126): "Worker Enthusiasm Is Source of Enterprise Vitality—Interview With Noted Economist Jiang Yiwei (5592 0001 5517)"]

[Text] Jiang Yiwei (5592 0001 5517): born 1920; member, Law Committee, National People's Congress; director, China Institute of Enterprise Reform and Development; director concurrently editor in chief, GAIGE [REFORM] magazine; and originator of the noted "three theories"—theory of the enterprise department, theory of staff and workers being the main part, and theory of economic democracy.

On 8 November, in his office at the foot of Xi Shan [Western Hill] in Beijing, I interviewed the noted economist Jiang Yiwei. We had a question-and-answer session centered on the question of how to enhance the vitality of enterprises.

[Question] Teacher Jiang, enhancing the vitality of enterprises, particularly the vitality of large and medium-sized state-run enterprises, has now become a hot issue drawing worldwide attention. I think this issue involves many aspects. The enterprises do not have enough vitality. If we were to find the fundamental cause of this, what would it be? I hope you will discuss this.

[Answer] In the most recent period, the central authorities have time and again stressed that the enhancement of the vitality of enterprises, particularly the vitality of large- and medium-sized state-run enterprises, is a central link in the restructuring of the entire economic system. For this reason they held a work conference. It may now be said that the entire country, from top to bottom, is interested in this issue and is also exploring it. Just as the central authorities have pointed out, this issue, viewed at the present time, is by no means a purely economic issue but is also a political issue, because whether the state-run enterprises have vitality, in a certain sense, shows how superior the socialist system is or whether it is, in fact, superior.

At present, the vitality of China's state-run enterprises, from the macroeconomic point of view, is even less than that of the township and town enterprises and of foreign enterprises. In the final analysis, is this phenomenon intrinsic to state-run enterprises, or is there another cause of it? Some people in Western countries often cite this surface phenomenon to show that public ownership is not as good as private ownership. Actually, it is a very complex matter. As for a state-run enterprise, the quality of its equipment, personnel, and leadership should be said to be higher than that of a township or town enterprise. However, the quality of much of its equipment and technology must be said to be somewhat inferior to that of the equipment and technology brought in by foreign capital. Then, in the final analysis, what is the cause of the insufficient vitality of state-run enterprises? I think that, although one may speak of it in many ways, it is still a question of the system of organization and has nothing to do with the socialist system. The system of organization is one of the ways and means embodied in the socialist system. Public ownership is the heart of the socialist system, but with regard to the question of how to achieve public ownership, the results produced by different ways and means are very different. It should be pointed out that, under the existing system, the enthusiasm of the staff and workers of enterprises is greatly influenced, and this influence has an obstructive effect on the display of the vitality of the enterprises. In enhancing the vitality of enterprises, we should, first of all, be clear about what, in the final analysis, this vitality is. At the central work conference Comrade Li Peng broadly outlined six forces, I see these forces, no matter which one it is, as depending, in the final analysis, on people to bring them about and on people playing their

role. Take, for example, the force of market competition. The market competition force of products is not produced automatically. The improvement of product quality, the development of new products, the promotion of the sales of products, etc., depend on people's effort in the final analysis, depend on people thinking of all possible ways and means. Therefore, my view is that if we want the enterprises to have vitality, first of all people must have vitality. The vitality of people means: the enthusiasm, creativity, and initiative of all staff and workers of enterprises—mental workers and physical workers, administrators and managers, and producers. The enthusiasm of people, i.e., the enthusiasm of workers, is the source of enterprise vitality.

[Question] Since people's enthusiasm, or people's vitality, is the source of enterprise vitality, this is also to say that the fact that the vitality of state-run enterprises is weak is related to the fact that people's enthusiasm has not yet been fully aroused. Such being the case, the problem of how to arouse to the maximum degree the enthusiasm of workers has become a problem of first importance that must not be ignored. Can you discuss your thoughts for a solution to this problem?

[Answer] Arousing the enthusiasm of workers is, of course, what a socialist country and a socialist enterprise should do. And we should see that even modern capitalist enterprises arouse, by all possible means, the enthusiasm of their workers. In a socialist society the working class is the master. From the political angle, this means depending on the working class and means attaching importance to the worth, dignity, and position of people. Why does capitalism also stress this point? I think it is because of scientific and technological development. Under the circumstances in which production technology is backward, most of the work is simple physical work. Simple physical work can be coerced. Taking a look at the development of human history, Lenin said that the slave society and feudal society depended on the club to maintain work discipline. In the past coercion was used to arouse enthusiasm, and there were floggings with leather whips. Capitalism emphasizes economic laws: if you do not work well, you will lose your job; if you do not work well, your wage income will be smaller. Lenin called this the enthusiasm of hunger. There are two kinds of enthusiasm: passive and active. Changing passive enthusiasm into active enthusiasm is very difficult. Now, the development of science and technology has caused great changes in the work structure. The work structure has two levels of meaning. One level of meaning is the proportion of mental workers to physical workers. When production was in a primitive state, there were very few mental workers, and physical workers occupied the main position. Following the development of production technology, the proportion of mental workers became larger and larger, and then even exceeded that of physical workers. In America the ratio is now 6:4 with white collars (mental workers) accounting for 60 percent and blue collars (physical workers) for 40 percent. In enterprises with modern technology, the proportion of white collars is even larger.

It is estimated that by the year 2000 the ratio of white collars to blue collars will be 8:2 with the white collars accounting for 80 percent. The trend in the change of the structure of workers is: mental workers will gradually take the dominant position. The second level of meaning of the work structure is the proportion of physical workers who use their minds and the proportion who use their bodies. In America there has been a change in this proportion among first-line blue collar workers. The proportion of them who use their minds has greatly expanded and even exceeds the proportion who use their bodies. Mental work has its own characteristics that cannot be felt or seen, and it is impossible to coerce it. It is impossible for mental work to be, as Marx said in his time, a case in which the prolongation of work time means an increase in exploitation, and it is impossible for mental work to be, as is work under the (Taylor system) [taile zhi 314] 0319 0455], a case of setting quotas. The greater the proportion of mental workers, the greater the need for people's initiative and consciousness. Precisely because of the changes in the work structure, capitalism, within the limits of its private ownership, cannot but arouse the workers' initiative by all possible means. But capitalism, after all, is limited by private ownership and cannot completely arouse people's enthusiasm. The superiority of socialism is this: it fully arouses people's enthusiasm. However, it is precisely this point that what we do is not completely ideal. This superiority of socialism's is a potential superiority or, that is to say, a possibility. To change this possibility into reality, a condition is needed. This condition is the system of organization, and a specific system of organization will be able to reflect this superiority. Speaking of the present time when the vitality of socialist enterprises is somewhat poor, this problem was not determined by the nature of socialism but is rather a problem of the system of organization. You say that the enterprises "eat out of one big pot" and foster sluggards. But socialism stresses distribution according to work, not "eating out of one big pot." If we cause distribution according to work to turn into "eating out of one big pot," can you say that this is a case in which distribution according to work is bad? True socialist distribution according to work does not foster sluggards. I have just said that the greatest superiority of socialism is that it can fully arouse people's enthusiasm. In arousing people's enthusiasm material interests are very important, and distribution according to work stresses material interests. But it will not do to put stress solely on material interests, and to do so will even have a negative effect. Besides hoping for an increase in their income, what is more important for the working masses is that they are unwilling to be in a position of being dominated. This is determined by their class nature. Why do I emphasize that socialist staff and workers are the masters, and emphasize concern, understanding, and respecting people? Because this is more important than money. In a capitalist enterprise, capital that makes work material is in the dominant position, and people are in a passive and hired position. Therefore, Marx said that in a capitalist society matter dominates people, and that people, who are the most dynamic

key element in production, are, on the contrary, in a passive position, so how can people's enthusiasm be displayed?" The socialist system reverses this relationship. People become the subject and the means of production the object. People then feel proud and elated and take the initiative. However, this is basic theory, and our existing system of organization often does not reflect these things. Therefore, an important condition for fully displaying the workers' enthusiasm is the reform of the system of organization. My basic idea is: the enterprises should set up a guiding ideology that makes the staff and workers the subject, or main part, and should stick to a set of socialist enterprise systems. Now, the central authorities have again emphasized the wholehearted dependence on the working class, and this is an extremely important policy. But it must not remain just a slogan and specific measures must be taken. Day after day the workers live in the enterprises, and whether they can in the enterprises feel that they are the masters is the most important condition for bringing forth the working class' creative enthusiasm for work. Therefore, the wholehearted dependence on the working class needs to be realized by all of society, but what is more important is the question of how to make the staff and workers the main part of the enterprises.

During these years I have advocated that enterprise staff and workers become the main part by means of five systems. (For details of the specific content of the five systems, see Jiang Yiwei's article "Theory of Staff and Workers Being the Main Part," carried on page three, "Voice of Society," of the 21 June GONGREN RIBAO.)

1) Property rights system. This system advocates that staff and workers be drawn into the ranks of stockholders, that the stock system be adopted, and that enterprises under the ownership of the whole people put into effect a mixed public ownership of the whole people, the collective, and the cooperative. In this way there will be a direct connection between the staff and workers on the one hand, and property rights on the other; a connection that will be advantageous for enhancing the staff's and workers' sense of responsibility as masters. 2) The factory director responsibility system must be set up in the administrative system, but it must be set up on the basis of democratic decision making. 3) For the work system I do not endorse the contract system now in practice. The regular staff and workers of an enterprise can adopt the pledge system, under which "work pledges" are democratically formulated and under which the enterprise's work committee decides if a pledge is broken and thus eliminates cases in which pledges are separated from the enterprise. For newly recruited staff and workers, the contract system can be practiced, but this contract system will be one in which the contract is between the individual staff member or worker and the work collective, and the contract will not be between the individual staff member or worker and the factory director (manager). The factory director must abide by the work pledge and must also sign a contract with the work collective. 4) For the distribution system I advocate that a "two-level distribution according to work" be put into effect. This first level of distribution is: in line with

the effective results in work provided by the enterprise's collective, society carries out for the enterprise distribution according to work. The second level of distribution is: in line with the contribution to work made by the individual staff member or worker, the enterprise's collective carries out a further distribution within the enterprise. 5) For the leadership system what I mainly talk about is democratic management.

Both ideas—the staff and workers being the masters and their occupying the position of being the main part—must be reflected in the specific systems. These systems are connected to production relationships, and by the abovementioned five systems we must make suitable reforms. One question needs to be clearly understood: is there a contradiction between the staff and workers occupying the position of being the main part, the democratic management of staff and workers, and the factory director's leadership and authority? There is definitely no contradiction. Depending upon democratic decision making does not mean that all matters, big and small, need to be discussed by the staff and workers, but that, at the least, on a major administrative policy everybody must be allowed to give counsel, and in the end everybody will make the decision. It will only provide the factory director (manager) with the powerful backing of the masses. The factory director (manager) is the entrepreneur of socialism, and he also should be an entrepreneur who understands modern management, and the situation should not be one in which what one person says counts. What one person says counts was the attitude of the small proprietors in the early period of capitalism. In another aspect, in the enterprise the factory director is not a public servant, in the enterprise there is no division between master and servant, and everybody is a master. However, democracy can be centralized, and the factory director is a leader who has been selected. The proper arrangement of these relationships will help deepen the understanding that in a modern enterprise not only is the physical worker important, but also the mental worker is becoming more and more important. Speaking in a certain sense, only by displaying their enthusiasm, initiative, and creativity will there be a basis for the enterprise's vitality.

TRANSPORTATION

CAAC Plans More Flights in 1992

HK2412124991 Beijing CHINA DAILY in English
24 Dec 91 p 1

[By staff reporter Ma Lie: "CAAC Plans More Flights"]
[Text] Xian—CAAC [Civil Aviation Administration of China], China's only national civil aviation enterprise, is planning more flights to welcome the expected increase in air travellers in 1992, a year of tourism promotion in China.

It has also decided to adopt more practical and effective measures to ensure more punctual flight times, a CAAC national conference was told yesterday.

From April to October next year, the number of weekly flights is planned at more than 4,200, with more than 300,000 seats—an increase of 24 percent and 28 percent respectively over the same period of this year, according to Zhang Yuqing, deputy director of CAAC's enterprise management department.

He said that CAAC has also planned to speed up the construction of airport infrastructures, improve services in order to keep all flights on schedule and ensure flight safety.

Next year, 14 special tour routes will be launched and 134 festivals will be celebrated all over the country to mark Visit China '92 and the 20th anniversary of the establishment of diplomatic relations between China and Japan. The number of air travellers is expected to increase 15 percent over this year, officials said.

In his speech at the national meeting to plan and co-ordinate summer-autumn flights in 1992, Zhang urged local airline companies to take serious measures to complete the arduous task of improving air transportation next year.

According to Zhang, CAAC has overfulfilled its annual transportation target. It has accomplished total freight volume of more than 2.7 billion ton-kilometres and carried a total passenger volume of more than 18 million people, both nearly 30 percent more than in the same period of last year.

AGRICULTURE

Price Reform Needed in Grain Producing Areas

92CE02254 Beijing JIAGE LILUN YU SHIJIAN
[PRICE THEORY AND PRACTICE] in Chinese
No 10, 20 Oct 91 pp 36-39

[Article by Cai Xiankai (5591 6343 0418), Cheng Yuanming (4453 6678 2494), and Tan Jian'an (6009 1696 1344): "Price Discrepancies in Main Grain Producing Area Urgently Require Solution"]

[Excerpt] Jingzhou Prefecture in Hubei Province is one of China's main commodity grain producing areas. In 1990, the prefecture produced 6.85 million tons of grain, or one-fourth of the province's total output, 2.94 million tons of which it provided the state as commodity grain for a 43 percent commodity rate. Nevertheless, numerous discrepancies exist today between grain production and sales that hurt the region's economic development. [passage omitted]

3. Ideas For a Rational Solution to Grain Price Policies

A series of discrepancies centering around grain price problems urgently require earliest solution.

1) Rational working out of grain procurement prices to stabilize grain production.

Over the long run, a narrowing of the price scissors and a rise in grain procurement prices are extremely necessary in order to improve the peasants' living conditions. However, too great a rise in prices today will be bound to make more pronounced peasant "difficulties selling grain," and grain departments' "marketing difficulties." From the standpoint of the prefecture's interest, the main problem to be solved right now is to clear away the grain currently in storage. In

view of this reality, consideration must be given both to stabilizing and developing agricultural production and doing planning as a whole that takes the market environment into account when increasing grain prices. Our views, based on a study of separate kinds of grain, are as follows: The price of paddy should not be increased in 1991 so as to encourage sales. Once the conflict between supply and demand has eased, the price may be raised somewhat, the price ratio between grain and cotton thereby reaching the normal level. The fixed procurement price for wheat should be suitably increased in the near future for the following reasons: First, for the past 2 years, the peasants have sustained losses from the growing of wheat. Comparison of production costs with actual overall average sale prices shows a 14.30 yuan per 50 kilogram loss throughout the prefecture in 1989, and a 9.07 yuan loss in 1990. Second, wheat offers a very great potential for changing the grain situation in general. Failure to increase the wheat procurement price will be bad for the development of grain production, which will be bad for satisfying the public's consumption needs.

In addition, past lessons of experience suggest that attention be given to the following principles in planning grain procurement price levels:

First is a widening of the price differential for quality as a means of solving the current hiatus between production and consumption. At the present time, producers want to grow high yield, low quality rice and wheat, but consumers like to eat premium quality rice noodles. The solution to this contradiction requires a widening of the quality differential to encourage and stimulate production of premium quality varieties that satisfy the people's consumption needs.

Second, grain procurement prices should not be readjusted during the current year; they should be planned a year in advance and announced to the peasants. This helps to guide peasant production and helps them to plan rationally what they will grow.

Third, once the negotiated grain procurement protection price has been announced, it must be strictly adhered to. Procurement should be opened wide, no limitations handed down. The state must also assure the availability of procurement funds; otherwise, the protection price will ultimately become a dead letter.

2) Solution to conflicts regarding inter-prefecture grain transfers and allocations, keeping open commodity circulation channels.

The problems in grain production today seem to be a return to the situation that existed in 1984 when there was surplus production and an abnormal amount of grain in storage. In that year, wrong signals resulted in mistaken judgments about the grain situation, which had a serious impact on grain output. In order to avoid taking the same old disastrous road, emphasis must now be placed on protecting producers interest in growing grain and on increasing sales to avoid another setback to grain production.

First, the fiction that there is too much grain must be eradicated from the guiding thought, establishing a policy for protecting the sustained development of grain production. Today, the amount of grain available is less

than 400 kilograms per capita, an insufficient total amount. Over the long term, as the people's diet changes, even though people's direct consumption of grain may decrease, more grain will be converted into other foods. Furthermore, with the steady population increase, there will be no weakening in the trend toward increase in grain consumption. Therefore, efforts cannot be relaxed in the slightest, steady grain increase must be ensured.

Second, the main reason for the current obstruction of grain flow and slack sales in growing areas is that the central government and grain marketing regions and provinces imported too much grain. Domestic grain production and marketing was not dovetailed. A solution to this conflict lies in the central government balancing supply and demand, reducing grain imports, planning grain allocation nationwide, and not concentrating grain storage in production areas.

Third, the central government set fee for the transfer and allocation of refined grain between Hubei and other provinces is 3.90 yuan per 50 kilograms, but since production areas have instituted peasant household sales and peasant household settlements, various fees are higher than before. In particular, since grain is held in storage for a long period of time tying up a large amount of funds, and since interest payments have increased, grain growing region actual business expenses in the shipment of grain amount to 7 yuan per 50 kilograms. Consequently, an appropriate increase in the subsidy for grain transfer costs should be considered to make up for the shortfall in grain growing region grain transfer fees.

Fourth, a relatively good way to solve the conflict between seasonal grain production and year-round grain consumption, stimulating grain marketing areas to ship grain during the peak production season is to institute a seasonal differential for grain transfer and allocation. This means defining the peak and slack seasons in terms of production seasons. When shipping grain during the peak procurement season, only a transfer and allocation administrative fee would be added to the transfer and allocation price. When shipping grain during the slack season, fees incurred for interest, damage and losses, and storage would be added to the price. This could encourage grain marketing areas to take more initiative in grain shipments, and grain producing areas could also reduce troubles caused by too much pressure on grain storage facilities.

Fifth, during 1990, the state began to expand grain storage facilities in major grain producing areas, as well as to put into effect special reserve measures which have eased the grain storage shortage to a certain extent. Nevertheless, as a grain producing prefecture, the amount of grain held in the special reserve is limited, more than 300 million kilograms of grain still remaining uncollected in the hands of peasants throughout Jingzhou Prefecture. Furthermore, 40 percent of the grain purchased has been piled in rudimentary open air sites instead of being placed under cover. Second (as published), insufficient money is available for reserves; income falling short of expenditures. Investment must be increased and granaries built for continued expansion of the special reserves. Special low interest or discounted loans might best be provided for special reserve grain so that the grain that

peasants produce can be purchased and put into granaries to the maximum extent possible in order to solve the 'difficulty selling grain'."

3) Timely Promotion of Grain Market Price Reform.

Substantial changes in the economic environment have occurred as a result of more than 2 years of improving the economic environment and rectifying the economic order, and intensifying reform. Inflation has been brought under control, price rises have receded markedly, and the public's psychology and its ability to withstand the economy have improved greatly, in addition to which the amount of grain in storage today is ample, and negotiated prices are on the decline. This opportunity should be seized to continue to move ahead with reform of grain marketing price work. Three steps to be taken are envisaged as follows:

First step: Change from an inversion between procurement and market price to an identical procurement and market price, the government subsidizing only operating costs.

Second step: Change from an identical procurement and market price to a suitable differential price, meaning basing the market price of grain on the procurement price, but setting an additional normal operating cost and a fair profit to enable the normal operation of grain enterprises. Government subsidies of grain prices would be completely eliminated.

Third step: Change from a suitable price differential to guaranteeing availability but not guaranteeing price. By this is meant that once the above two steps have been taken, should bumper grain harvests continue, consideration should be given to removal of price restrictions on grain, guaranteeing the availability of grain but not guaranteeing price. This means guaranteeing supply of the basic grain ration to satisfy military and civilian needs for food, but allowing the market price to be regulated by the market, and applying corresponding macroeconomic regulation and control measures for a change from direct to indirect control of prices.

Tibet Stresses S&T, Investment

92CE0235A Lhasa XIZANG RIBAO in Chinese
11 Nov 91 p 1

[Article by staff reporter: "This Year Tibet Again Obtains Bumper Harvest in Agricultural Production"]

[Excerpts] Under the leadership of the autonomous region's party committee and people's government, in Tibet's agricultural production this year: the agricultural development policy of "first depending on policy; second, depending on science and technology, and third, depending on investment" continued to be thoroughly implemented, so as to further heighten the understanding of agriculture's basic position, to enhance the leadership and management of agricultural production, to strengthen science and technology, and to increase investment. Even under the circumstances in which some places in the autonomous region suffered fairly serious natural disasters, a bumper harvest was obtained in agricultural production, making four consecutive years of bumper harvests. The region's grain output

is estimated to be 580 million kg, a 4.5 percent increase over last year's output; its rapeseed oil output is estimated to be 15.75 million kg, a 5 percent increase over last year's. [passage omitted]

Beginning last winter in each place a comprehensive plan for this year's agricultural production was carried out, and the plan was integrated with the reality in each place. In each place there were repeated studies of crop distribution, planting ratio, sown area, and target yield. The leaders of the government, the Chinese People's Political Consultative Conference, and the people's armed forces departments took an interest in and attached importance to agricultural production. Making careful arrangements they popularized the application of science and technology to agriculture and technical measures suited to agriculture. They made overall arrangements for the variety, quantity, funds, and transportation of the means of agricultural production. Thus, they ensured that agricultural production went smoothly.

—Models were set up, and the number of science and technology demonstration counties were increased. On the basis of the four agricultural science and technology demonstration counties, which were set up for the first time last year, six more were added this year. In the 10 counties, the total sown area was 980,000 mu, accounting for 30.6 percent of the autonomous region's total sown area. Their grain output this year was 26.7 million kg, a 10.8 percent increase, thereby making a contribution to the autonomous region's grain output this year by setting a new record and by truly playing a demonstrative and leading role. The setting up of these demonstration counties has heightened the scientific and technological consciousness of the cadres and the masses, and has improved the quality of the scientific and technological education of the masses.

—There was a dependence upon science and technology, and the application of agricultural science and technology was vigorously popularized. This year in the autonomous region the area sown to agricultural crops was 3.21 million mu; of this the area sown to grain crops was 3 million mu, an increase of 20,000 mu over last year's figure. The area planted with improved varieties was 2.15 million mu, an increase of 50,000 mu over last year's figure, and the coverage rate of improved varieties exceeded 70 percent. In the crop planting ratio, there was an appropriate expansion of the high-yield crop area, and the area planted with winter wheat and winter highland barley was 480,000 mu. The area plowed by tractor and the area sown by tractor were respectively 650,00 mu and 704,000 mu, an increase of 50,000 mu over last year's figures.

In the autonomous region 1.2 million mu were put under output-linked technological contracts, an increase of 200,000 mu over last year's figure and accounting for 40

percent of the area in the region sown to grain. The average per-mu yield increased more than 25 kg over that of last year.

In the autonomous region, high-yield model cultivation techniques for wheat-type crops were used on 436,000 mu. The average per-mu yield was 393.2 kg, and the total output increased 19.39 million kg over that of last year, an outstanding result.

In the autonomous region, on the 700,000 mu that were put under the "bumper harvest plan," the average increase in yield was more than 10 percent. On the 350,000 mu of high-yield plots, the average per-mu yield was more than 20 percent higher than last year's. On the 100,000 mu of improved variety strip demonstration fields and on the 100,000 mu of dry farming agricultural techniques demonstration fields, the average yield was more than 20 percent higher than last year's. And on the 70,000 mu of strip high-yield fields on which was practiced the technique of "100 mu for 1,000 jin, 1,000 mu for 1,000 jin, and 10,000 mu for 1,000 jin," the average per-mu yield was more than 500 kg. In all places solid work was done in managing agricultural crop fields, preventing and controlling plant diseases and eliminating insect pests, and training peasants in techniques.

—There was an increase in income and an improvement in production conditions. This year the autonomous region invested more than it did last year in agriculture's science and technology, labor affairs, funds, and materials. In the autonomous region, 42,500 tons of chemical fertilizer were used, 5,000 tons more than were used last year. There was an improvement in both the quantity and quality of farmyard manure, and the average per-mu application of farmyard manure ranged from 1,000 to 1,500 kg. In the autonomous region, 98 large and small canals were newly built, 7,938 canals were maintained or rebuilt, and 2,360 ponds were maintained, thereby expanding the irrigated area and enhancing the capability for resisting drought and waterlogging. A little over 50,000 mu of low-yield fields were transformed, and 330,000 mu of soil were improved. In particular, the peasant masses heightened their enthusiasm and initiative for making investments and increased the amount of their investments, thereby promoting the development of agricultural production.

—"Unity" and "division" were integrated, and the services before, during, and after production were enhanced. Adroitly guiding action according to circumstances, many prefectures and counties took measures to integrate unity and division. In the planting mix, crop distribution, variety, sowing period, sowing amount, fertilizer application, irrigation, prevention and control of plant diseases and elimination of insect pests and weeds, and farmland water conservancy and capital construction, plans and actions were unified, thereby solving fairly well the difficulties and problems in production that had been difficult to solve and arousing the masses' enthusiasm for production.

Little Success in Halting 'Three Randoms'

92CM0045A Beijing MINZHU YU FAZHI
[DEMOCRACY AND LAW] in Chinese No 9,
12 Sep 91 pp 4-8

[Article by Zhao Xin (6292 0207): "Memorandum on Bringing 'Three Randoms' Under Control"]

[Excerpts] [Passage omitted] Reasonable fees, fair fines, and the raising of funds under the principle of receiving benefits and volunteering—these are normal practices in socioeconomic life. But if they take a step from the true path, errors and confusion are bound to occur.

Over the past several years the practice of the "three randoms"—random fees, random fines, and random apportionments in the raising of funds—has become stronger and stronger, and the masses of people and the enterprise units have suffered deeply from it. [passage omitted]

Armbands, uniforms, and the horizontal bars of blocking vehicles are seen everywhere. According to statistics, there are more than 3,000 barriers on the roads in Hunan Province; the provincial industry and commerce department alone found more than 400 illegal inspection stations. Drivers say: "When you drive a vehicle and are stopped for an inspection, your money will be taken"; "a barrier is really the opening of a money bag." The Chenzhou Forestry Vehicle Transportation Unit has 31 vehicles. According to incomplete statistics, over the last two years the vehicles of this unit received 154 fines, 48 of which were obviously random fines. To avoid the barriers some drivers drove at night. However, after this "secret" was uncovered the inspectors carried out around-the-clock "patrols" and the fines were imposed even more relentlessly. [passage omitted]

In one county an inspection station that collects overdue taxes on coal brought in 2.09 million yuan in one year; locally, it is called "the smokeless factory." However, this county, which abounds in the natural resource of coal, became difficult to traverse because of the many barriers that were set up indiscriminately and the many different fees that were charged, causing coal to pile up like hills as sales were held back. The drivers say with a sigh: "Going through a traffic inspection station is like running a blockade!" [passage omitted]

In recent years, cries of "the peasant's burden is too heavy" have never stopped. Let us look at the burden that random fees put on tractor drivers: In Dongshan City, Fujian Province, each year a tractor driver has to pay 41 fees imposed by seven departments. According to a survey conducted in Zhenjiang, Wuxi, Suzhou, and Nanjing cities in Jiangsu Province, fees are collected from tractor drivers by more than a dozen departments and units, including communications, public security, industry and commerce, tax, insurance, water conservancy, county and township government, village people's committee, police station, traffic control station, and agricultural machinery station. There are between 32 and 39 types of fees; the total amount of fees per tractor ranges between 1,300 and 1,900 yuan, about 30 percent of its operating fund, and some of the fees

increase from year to year. For example, in Yiyang County, Hunan Province, the annual road maintenance fee per tractor was 21 yuan in 1986. In 1987 it rose to 26 yuan, in 1988 to 78 yuan, and in 1989 to 325 yuan!

Therefore, the peasant tractor drivers in Yiyang County are abandoning their tractors and changing occupation. They have already stopped driving 1,350 tractors and sold 650 tractors, the total of these two figures representing 64 percent of the peasant tractors in the county. [passage omitted]

Of the "three randoms," what an enterprise most fears is the random apportionment in the raising of funds. At the present time, an enterprise's random apportionment is generally 3 to 5 percent of its retained profit. However, from a look at the figures supplied by the No. 1 Rubber Plant in Guangzhou City and the Sanxing Agricultural Vehicle Company in Zhenjiang City, we see: In 1989 the former made 2.86 million yuan in profits and retained 1.35 million yuan of it. But it turned over to the higher authorities 41 apportionments in the form of aid and support that totaled 521,700 yuan, which was over a third of the profit retained by the enterprise! In 1989 the latter's apportionments totaled more than 390,000 yuan, which was 48.9 percent of that year's retained profit.

"The policy calls for preferences, and the departments collect fees; the preferences are slow in coming, but the fees jostle each other as they come fast." Let us look at the apportionments imposed on a coal transportation company in a certain prefecture:

"Aid" to a theatrical company: 1,000 yuan; "aid" to a kindergarten: 4,000 yuan; "aid" to prefectural literature and art association: 5,000 yuan; "aid" to broadcasting bureau: 5,000 yuan; "aid" to cultural bureau for a Spring Festival literary and art performance: 2,000 yuan; fees collected by county second-level center for "4 May" activities and "two meetings and one festival" activities: 4,500 yuan; fees collected by county public security bureau—public security management fee: 915.98 yuan, public security protection fee: 3,700 yuan, and public security fee: 680.20 yuan; literary and art fee collected by prefectural office: 400 yuan; advertising fee collected by drama department of a television station: 15,000 yuan; labor publicity fee collected by prefectural labor services company: 1,500 yuan. [passage omitted]

Two enterprises in Fujian Province provided the following information on the inflation of advertising fees: In 1989, Enterprise A spent a total of 279,000 yuan on advertising fees, of which 180,700 yuan, or 65.4 percent, were of an apportionment nature. In the same year, Enterprise B spent a total of 341,400 yuan on advertising fees, of which 113,800 yuan, or a third, were of an apportionment nature.

In Shenzhen, after the Nanfang Pharmaceutical Factory opened a market for its "San Jiu" stomach tonic [san jiu

wei tai 0003 0046 3152 3141], people offering support advertising beat on its gate incessantly. Every year the factory spends as much as 2 million yuan on support advertising, of which a considerable part is apportioned as aid. [passage omitted]

When they hear about "incidental school fees," people in general do not give them much thought—actually, under the "Compulsory Education Law of the People's Republic of China" and the state's relevant regulations, elementary and middle school students are exempt from paying "school fees" and pay only "incidental fees"—but the parents say with a sigh: The "incidental fees" are really incidental!

Maoming City once inspected 15 schools and found that in any one school, the fewest fees collected was 11, and the most fees, 44. The results of its preliminary survey showed that these schools in one year collected 1.41 million yuan from the fees they themselves set!

Heilongjiang Province reports: In this province there are now over a dozen "incidental fees," such as the after-school lesson fee, lesson make-up fee, reference material fee, school construction fee, cleaning fee, tea or boiled water fee, medical fee, examination paper fee, insurance fee, heating fee, bicycle parking fee, public property damage add-on fee, work-study program fee, moral education "window" fee....

Some schools, after collecting the school construction fee, order their students to "find" bricks, tiles, sandstone, and cement. Those who cannot "find" them have to pay money. Some parents no longer give their children money for this purpose, and the children, fearing the teacher's censure, are forced to pilfer these materials from construction sites.

The fees collected from students who enter school on a normal basis are limited, and so some schools particularly favor "negotiated price students." There is only one senior middle school in Fangzheng County, Heilongjiang, and every year it enrolls only 200 students. This enrollment "policy" has remained unchanged for a long time. However, the number of the school's "negotiated price students" increases each year—no matter whether your marks are high or low, you only pay 1,500 yuan!

It is not an isolated case for the money from fines and fees to be linked to unit welfare and individual bonuses. In many of the "three randomness," this is the reason for "creative collection" of fees.

A certain city's planned parenthood services center ran a premarriage class for young people. With the price bureau's approval, each person paid a fee of 5 yuan; later, the fee rose to 20 yuan. By means of this "creative collection," an annual income of 7,460 yuan was obtained, and the greater part of it went for bonuses and welfare.

To make "creative collection" convenient, some units that collect fines and fees either make their own tickets and receipts, fill out blank tickets and receipts, or simply do away with such formalities; what they want is to get the money by any means. In Wuchuan County, a police station, in taking in 236,000 yuan, used up all the tickets and receipts it had made itself. A police station in Shaoguan City, in the one year of 1990, imposed 17,554 yuan in fines, of which 9,991 yuan, or 57 percent, was collected by filling out blank tickets and receipts.

All collected fines and fees should be turned over in full to the state's financial administration. However, many units that impose fines and collect fees, to attain their objective of "creative collection," either keep part of them, delay turning them over, embezzle them, or conceal them and do not report them, thereby causing a large erosion in the state's finances. [passage omitted]

Localities with no money or with little money still have a great ambition to do things, and they can do things. The method is: Raise funds! Make apportionments! One time, two times.... more times. Some localities have formed this habit: If they do not raise funds they do not do things; if they want to do things, they must raise funds.

To construct an office building, a police station in Shijiazhuang Prefecture raised funds from the villagers in more than 30 townships. The standard apportionment was low, being only 0.1 yuan per person. But there were many villagers, and the small apportionments mounted up to an imposing total: Over 9,000 yuan was collected! The police station also made apportionments to four brickyards in the townships and towns under its jurisdiction, and each of them sent between 5,000 and 10,000 bricks.

A township of a certain city wanted to build a swimming pool and an old folks home, and needed 4 million for this purpose. The township party committee organized a compulsory donation drive in which each staff member and worker in the township had to donate at least 50 yuan, and each CPC and CYL [Communist Youth League] member in the township had to donate at least 100 yuan. On payday each person was given a compulsory donation form with four levels—50, 100, 150, and 200 yuan—and after he checked off one of them the money was directly deducted from his pay.

This practice of raising funds before doing things also exists in the film and television sector and in the publishing sector. The film and television program center of the Educational Film Art Company, which is under the jurisdiction of a certain ministerial-level commission of the state, wanted to shoot a television film that would reflect the 10 years of great change in a certain city, and called on the city to provide it with 200,000 yuan in aid. The city made an apportionment of 10,000 yuan to each of the eight towns under its jurisdiction and an apportionment of 7,000 yuan to each of its 16 enterprises. Also, a drama troupe of a certain film

studio collected 123,000 yuan from the Chunhua Vacuum Cleaner Company. In another case, to raise funds for the publication of the *Atlas of China's Cities*, the construction office of a certain province made a special apportionment of a publication fee of 4,000 yuan per page with an additional editing fee of 500 yuan per page. [passage omitted]

The public security bureau of a certain locality collected an "armband fee for security personnel in the hotel industry," each fee being 20 yuan.

In a certain school, a student who scores below the school's admission line has to pay 1,000 yuan for each point below the line.

A woman worker who was five months' pregnant went to the residents committee to obtain a birth permission certificate. The committee scrutinized her marriage certificate and painstakingly helped her to calculate the date that her pregnancy began. It then made her pay a fine of 600 yuan. The reason: The date that her pregnancy began was earlier than the date that she received her marriage certificate.

A town wanted to set up a public security patrol, and its residents were therefore apportioned a fee of six yuan per household. By fee collection time the town had already contacted the grain shops and had arranged with them that anyone who had not paid the fee did not receive a new grain ration book.

A police station, by forcing relevant units to buy "T" traffic signs, made a profit of 16,000 yuan.

A village was compelled to subscribe to a newspaper, and every three months it used a donkey cart to pick up its copies of the newspaper at its township. The tied-up copies were brought back to the village head's house, where they were used to paper walls after the New Year's Festival began.

A school collected a snow-removal fee from its students: 2 yuan per student per removal.

Women from 15 to 55 years old who go outside a certain locality to seek work have to pay an "advance planned parenthood fine" of 50 to 100 yuan.

In the course of its official duties, a police station fined nine persons 1,100 yuan, and of this number, four were fined 650 yuan for "speaking out of turn." [passage omitted]

Just how many "fees" are there?

After eliminating a first batch of 22 fees last year, the Hangzhou City people's government announced on 16 January of this year that a second batch of 22 fees would be eliminated, including: the fee for polished rice rolls for cadres on preferential retirement, fee for the certificate of skills qualification in the motor vehicle maintenance trade, fee for the cost of proof that a woman has borne only one child, fee for the cost of the child-bearing

quota card, fee for managing the personnel who have retained their status, fee for managing personnel whose wages have been stopped but who have been kept in their posts, fee for managing part-time personnel on loan, etc.

Five enterprises in Henan Province very conservatively disclosed to a relevant department the "fees" they had encountered: Staff and workers training fee, mass group support fee, mandatory purchase of literary and art performance tickets, fee for relief of the poor, literary and art festival fee, fee for purchase of National Day flowers, fee for military service registration.... in a word, more than a hundred types of fees.

Please look at the "fees" set by a hospital in Zhanjiang City: Sanitary materials fee, cleaning and disinfecting fee, bedding and cloth changing fee, depreciation fee, disposal fee, fee for meals past the appointed time for a surgical operation, anesthesia observation fee, blood transfusion materials fee, semiprivate room fee, blood pressure measurement fee, sanitary bag fee, washbasin fee, towel fee, water jug fee, diaper fee, medicine cup fee, clothing storage fee.... [passage omitted]

Current Problems in Interpersonal Relations

92CM0079A Beijing ZHONGGUO SHEHUI BAO
in Chinese 11 Oct 91 p 3

[Excerpt] [passage omitted] 1. Commercialization based on monetary terms. The concept of equal value exchange in the commodity economy has penetrated interpersonal relations. Some follow the natural law of value in their personal relations, and produce "commodity fetishism." Limited supplies and unrealistic desires increase self-centered private interests. Concepts such as "look for money in everything" and "money can make the devil turn the millstone" have become guiding thoughts for some in interpersonal relations, and form the social phenomenon of "know how much money not the person." A newspaper reported that in Chengdu a young man's reply to a woman's cry for help after she fell into the water in a park was "how much will I get paid for saving her life?" Money makes some people lose their conscience. Human relations based on money intensify the exclusive and discriminatory elements in interpersonal relations, destroy mutual trust, expose the material dimensions in interpersonal relations, increase the selfish mentality, and undermine one's natural resistance to greed.

2. Attachment to power. Power is vested in individuals. Therefore dealing with power becomes unavoidable in interpersonal relations. Power worship is a product of feudalism. As power bears absolute authority, "going through the back door" and other unhealthy tendencies cause people "to look upward" and accept the concept that "power gets things done." In social reality, individuals vested with power and their family members are successful in doing whatever they want to do because everyone opens doors to them. This phenomenon produced "envy power mentality." People often take pride in their ability to associate with those in power, and

refuse to associate with those who are lower than them in social class. Consequently "class phenomenon" emerged. People in higher classes feel superior, and develop psychological biases. Relationships among schoolmates, friends, teachers and students have become more distant because of the change in one's position in the political power structure. Attachment to power has one clear goal: to satisfy one's material desire as well as one's political ambition. To win the heart of the powerful, people try anything and everything to associate with those who are in power, to flatter and please them, to meet their interests, to dine with them and shower them with gifts. Such economic and political attachment to power transformed the nature of power to private ownership, and produced various forms of corruption such as accepting bribes, and appointment by personal favoritism. A group of cadres was corrupted and brought down. Last year in Sichuan Province 14,931 criminal cases were investigated within the party, and 12,846 party members received disciplinary actions, of which one case involved the provincial assistant administration level, 13 cases involved the regional level, and 225 other cases involved the county level. To a large extent, the corruption and the fall of these cadres were the consequence of interpersonal relations which were built upon the attachment to power.

3. Untruthful exchange of thought in interpersonal relations. The proverb states: "Heart must be exchanged with heart." Shared ideas can reduce psychological gaps and develop "close friends." The fast pace of modern life leaves us with little leisure time. High-rise apartment buildings with their feeling of confinement and the lack of highly developed transportation narrow the extent of communication and exchange, and produces psychological estrangement. Especially after the storm of the "Cultural Revolution," people no longer dare to express their thought. Hypocrisy and abnormal mentality emerged in the forms of "speaking truth at home and telling lies in public," "adapting songs according to places," and "speaking less and never telling everything." Many have developed "double personality." Relations between superior and subordinate become deceiving. Reports to the higher level tell only the good news and cover up the bad news. Some "praise people in front of them, and badmouth them behind their backs." Others abandon the most fundamental principles to protect themselves. Still others comply on surface but oppose in private to get personal gains. Sometimes it is even difficult to know the real intentions among father and sons, and among brothers. There is a lack of sincerity and mutual trust among members of society.

4. Lack of exchange of emotions. Emotions are reflections of one's attitude towards the outside world as well as a psychological response to outside stimuli. Human relations include mutual awareness, understanding, passing judgement, love and hatred, and fondness and dislike. Human relations also include mutual influence and interaction in behavior. Among these elements, interpersonal relations are defined by the degree of

affection or dislike in terms of whether relations are harmonious, stable, close, deep, and attractive. Feudal ideas still tie people's hands. The mentality that "one can hear the cocks crowing and dogs barking, but people grow old and die without ever having been there" is deeply rooted in people's conscience. Due to the lack of truthfulness in exchange of thought, there is a lack of sincerity in people's emotional expressions. For various reasons, people are afraid of expressing their true feelings. They either pretend to smile to cover up their anxiety, or take no stand and try to avoid giving their opinion. They intentionally hide their thinking from others. Natural anger and criticism are confined only to oneself and the loved ones. Upon return to public places, people put on their pretended smile. People often control their emotions and dare not to express their true happiness and sorrow, their true love and hatred. Consequently, feelings of "deep gap," cynicism and lack of understanding are generated and these feelings muffle emotional exchange. Due to this lack of emotional exchange, emotional expressions in interpersonal relations become insincere. There is a lack of true cooperation. There is an emergence of psychological barriers and prejudice. The feeling of increased separateness, lack of understanding, and mutual distrust is intensified.

5. Jealous of talent. Jealousy is a feeling of dissatisfaction towards other people who surpass oneself. It is a product of selfish mentality. Talented people contribute more to society, they are the cream of the nation, and theoretically talents are admired by society. However, as the concept of commodity competition has penetrated society, people who fall behind, who do not strive for progress, and who are ignorant and uneducated now feel the pressure that they may become dropouts in the historical progress under the natural law of "survival of the fittest" and "natural selection by competition." These people become dissatisfied with the rise of the industrious, the talented, and the capable. They blame others' outstanding achievement for their own incapability. "Jealousy," "the red eye disease," and "persecution complex" produce psychological unbalance among these people. In reality, promotion, family prosperity from proper income and reasonable job advancement have become the target of jealousy, dissatisfaction, disdain and even personal attack. The goal of jealous people is to use themselves as the standard and prevent others from surpassing that standard. This selfish behavior not only increases human psychological distance but also hinders the trend of times and social progress.

[passage omitted]

Economic Crimes Committed by Rural Enterprises
92CM0079B Beijing ZHONGGUO SHEHUI BAO
in Chinese 1 Nov 91 p 3

[Excerpt] [passage omitted] I. Major Manifestations of Economic Crimes Committed by Rural Enterprises

Economic crime refers to the unlawful possession, embezzlement, diversion and waste of collective property by employees of rural enterprises through the use of power and position. Major manifestations of this problem are the following:

1. Using enterprises to enrich individuals and private wallets. A tiny minority of enterprise directors believe in "taking the post for its money." They abuse their power and authority in every way to benefit and profit themselves. They embezzle and steal collective property. In the old days they used to be the "leaders" in developing enterprises, now they have become "parasites" sabotaging enterprises. A certain brick factory director Zhang was once awarded the title "the leader of building family fortune" during the initial stage of enterprise building. Later his thinking became corrupted. He embezzled 32,000 yuan of funds by writing bad checks and making fraudulent claims. Eventually the debts of the factory exceeded its assets. While the factory was on the edge of bankruptcy, Zhang constructed two multiple-story buildings for himself. The factory failed, while his family became prosperous, and used the enterprise to make family fortunes.

2. Making a fortune by "contract" management, and appropriating public property. Currently, the masses are reacting strongly to the corrupt motivation of some enterprises' contractors. They use management contracts to cover their private gains. For instance, a certain marble quarry manager Li had his wife control finances during his contract. They embezzled more than 7,500 yuan and diverted another 4,500 yuan's worth of assets. The factory's debt exceeded its assets. When Li's contract was terminated after investigation, the factory management contract was turned over to a certain temp worker Liu. Liu sold factory equipment at low prices, and made profits for himself. After one year the factory went bankrupt, but Liu purchased cars for himself to start a shipping business. Li and Liu thus destroyed an enterprise with assets close to a million yuan and had its own raw material supply and market.

3. Fishing in troubled waters under financial disorder. Most economic crimes in rural enterprises are committed in financial disorder, which gives criminals opportunities. For example, a light industrial product company once employed nearly 300 workers and had 11 branches with fixed assets amounting to 330,000 yuan. The manager Zhao (already arrested and sentenced) under contract used his position as the representative of a legal entity to frequently change financial staff. Eleven staff members in finance were altered within five years of his management. As a result the company's debt exceeded its assets.

4. Seeking opportunities to make a fortune by holding dinner parties and giving gifts. Some people in rural enterprises profit themselves under the name of holding dinner parties and giving gifts. To link up with a large factory, a small town factory of 40 employees spent 23,000 yuan on gifts, about 40 percent had nonstandard receipts. Such expense was beyond explanation, and became a bottomless black hole.

II. Main reasons for Economic Crimes in Rural Enterprises

The reasons for the above stated problems can be summarized as follows:

1. Inferiority of small scale agricultural economy. Nearly all employees of rural enterprises are peasants from the primary industry of agriculture. They step one foot in the farm field of responsibility, and put another foot by machinery. In hard times, a minority of them are attracted to wrong ideas such as "no appreciation will be given for not profiting oneself," "profit and run," and "take what you can, return when you get caught." These wrong ideas lead to some unlawful actions.

2. Confusion on legal concepts. Rural enterprise employees have very vague legal concepts. Most recent economic crimes in rural enterprises were discovered during financial audits. Very few cases were reported by employees [passage omitted]

NORTHEAST REGION

Ideology Stressed at Newspaper Work Conference

SK1311142591 Harbin Heilongjiang People's Radio
Network in Mandarin 1000 GMT 10 Nov 91

[Text] At the Heilongjiang provincial newspaper work conference, which concluded today, it was urged that newspapers use correct political viewpoints to publicize economic construction and raise their levels of ideology, guidance, readability, and service.

At the conference held by the propaganda department of the provincial party committee and the provincial press and publication bureau, the experiences in management gained by the various newspaper offices of the province in the past three years were summarized, 20 advanced newspaper offices and collectives that had distinguished themselves in diversifying their production were commended and awarded, and newspaper management and reregistration work were arranged. Publicity through newspapers was particularly studied at the conference.

Zhou Wenhua, deputy secretary of the provincial party committee, and Dai Moan, provincial vice governor, delivered speeches, respectively, on the party's political guidance to newspaper work and on ways for the government to exercise macro regulation and control of newspapers. (Chen Daohui), deputy director of the provincial party committee propaganda department, spoke and gave specific arrangements for the publicity through newspapers.

Participants at the conference agreed: We should always adhere to the correct ideology for running newspapers and use correct political viewpoints to publicize economic construction. We should uphold four political viewpoints: 1) the viewpoint of upholding the socialist road and safeguarding the fundamental interests of the masses, 2) the viewpoint of upholding stability and unity, 3) the viewpoint of helping to boost the masses' enthusiasm, and 4) the viewpoint of persistently opposing peaceful evolution.

The participants pointed out: The focus of the current publicity through newspapers is to intensify the publicity of economic construction, reform, and opening up and adherence to the four cardinal principles and spiritual civilization so that greater contributions can be made to the province's political stability and unity and economic prosperity and development.

Shandong Obtains More Foreign Investments

SK0112022091 Jinan Shandong People's Radio
Network in Mandarin 2300 GMT 27 Nov 91

[Text] Laoshan District, Qingdao is optimizing its tangible climate [ying huan jing 4289 3883 1064] and intangible climate [ruan huan jing 6516 3883 1064] to attract foreign businessmen to invest money or open plants to develop the local economy. The district has approved the establishment of 53 three-capital enterprises involving \$126 million, ranking the district first in the province.

Since the beginning of this year, Laoshan District has regarded the work of attracting foreign capital and developing the export-oriented economy in its overall plan for a flourishing economy. The district has set up six small zones for foreign investments; issued a statement on broadening the open policy and enhancing the economic relationship with foreign countries and foreign trade; established a leading group in charge of the open policy; set up the service center for foreign investments with the participation of principal responsible personnel from the district economic and trade commission and personnel from 12 units—including bureaus responsible for the work, banks, and insurance companies; simplified application procedures; upgraded its work efficiency; rendered unified services; and fostered the vitality of opening to the outside world. The district people's government has also invested more than 70 million yuan in building a tangible climate. Throughout the district, thirteen towns are connected with asphalt or cement roads. While enhancing the building of the tangible climate, the district has also emphatically improved its intangible climate and published the pamphlets and videotapes of investment materials in which the district introduces the state of affairs of its 109 enterprises that are able to earn foreign exchanges by utilizing foreign capital and provides them for the selection of foreign businessmen.

The district people's government has also established archives for three-capital enterprises and has assigned its personnel at regular intervals to the enterprises to learn about their situations, to implement the preferential policy of foreign investment, to prevent arbitrary apportioning to three-capital enterprises, and to protect the legal rights of foreign businessmen and three-capital enterprises.

The district has achieved rapid development in opening three-capital enterprises thanks to paying attention to improving the tangible and intangible climates. Foreign investments have come to the district one after another. Those who have opened plants in the district include the United States, Japan, Singapore, South Korea, Hong Kong, Taiwan, and Finland. The district's 25 three-capital enterprises that had been put into production earned more than 10 million yuan in foreign exchanges from exports from January-October.

Hsu Hsin-liang, New DPP Chairman, Interviewed

42C, M00974 Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 242, 3 Nov 91 pp 33-37

[Edited interview with Hsu Hsin-liang (6079 0207 3328) by Liao Fu-shun (1675 4395 7311): "The Democratic Progressive Party May Humiliate Itself, but It Does Not Humiliate Taiwan. An Exclusive Interview With the Next Chairman of the Democratic Progressive Party, Hsu Hsin-liang, Discussing the Issue of the 'Three Parties on the Two Sides of the Taiwan Strait'"]

[Excerpt] [passage omitted] [Liao] Given the current political configuration—three parties arrayed on the two sides of the Taiwan Strait, how will the Democratic Progressive Party [DPP] orient itself? What role will it play?

[Hsu] First, I should like to explain the DPP's subjective view of its role. One, our party advocates independence for Taiwan and views the relationship between Taiwan and China as that obtaining between two countries, which naturally may be said to have a "special tie" due to geographic, linguistic, and other factors. Therefore, there is no such thing as "three parties on the two sides of the strait."

Two, I think everyone knows that the DPP is Taiwan's only opposition party and the only such party in Asia that could assume power within the next few years. Specifically, Taiwan will hold major elections in each of the next few years, and this is the first time in several centuries that the people have had the power and opportunity to choose their government. This epochal turning point, where an authoritarian regime disintegrates and the central government frees the people to engage in direct elections, definitely favors opposition parties.

Upon assuming power, the DPP will pursue two objectives—full democratization and the establishment of Taiwan as an independent nation-state.

The next step in the DPP's development is to achieve political power. Both democracy and independence will surely rattle China, but that might not necessarily be bad—such as in the tense relations everyone now imagines to exist. Indeed, in the long run Taiwan's independence might help China and induce her to make her internal relations more reasonable, such as her ties with Hong Kong.

[Liao] You mentioned the Taiwan nation. Does this include all 20 million residents of Taiwan?

[Hsu] Of course, all 20 million comprise the Taiwan nation. From the modern concept, nation means a community bound by common fate. The 20 million people of Taiwan share common interests and naturally will come to feel themselves as a community bound by common fate. This is what we mean when we say "new nation," which naturally embraces 20 million people. [passage omitted]

[Liao] But what will you do if the 4-5 million mainlanders on Taiwan object to joining your "Taiwan nation?"

[Hsu] So long as we in fact form a community bound by common fate, this feeling will gradually emerge, because our interests do coincide. Using the words of Marx, Taiwan advocates of Chinese nationhood spout an ideology that lacks material basis.

[Liao] You just said that this is the DPP's subjective view. If we analyze facts objectively, how would the DPP orient itself then?

[Hsu] What I just said was by no means entirely subjective. For example, the statement that we are the one opposition party that enjoys the greatest possibility of assuming power is objective fact. That political power has been decentralized and that we can take power through elections, too, is objective fact. And that democratization and independence of Taiwan will spur democracy and internal readjustment by the Communist Chinese also are foreseeable facts.

I do not envision the situation the way you just stated it. From our perspective, it is not a matter of three parties arrayed on two sides of the strait. We see ourselves as one party on Taiwan, the one opposition party that could assume power.

[Liao] Whether subjective conviction or partially achievable, objective fact, in the current political situation the DPP seems unable to extricate itself from the two-side, three-party configuration. If we return discussion to the configuration, what will the DPP do then?

[Hsu] I still reject your formulation. For China and Taiwan by no means share a special relationship. Those ties are much, much weaker than those obtaining between us and Japan and us and the United States. You assume that Chinese-Taiwan ties exceed those we have with all other nations, which is not true at all. American influence and Japanese influence on Taiwan vastly exceed that of China. This is objective fact.

[Liao] Yet both the United States and Japan view Taiwan as part of China. This, too, is a fact of life in international relations.

[Hsu] This, too, is inaccurate. Of course, you have opened a can of worms here. I just said that both the United States and Japan have greater influence on Taiwan than does China. Neither the United States nor Japan by any means sees Taiwan as part of China. Neither will permit China's influence to exceed its own. And neither recognizes that China has any special rights with respect to Taiwan. All the United States and Japan have done is to respond formalistically to a vacuous, abstract assertion by China that has no practical significance and that they feel need not openly be challenged. One cannot conclude from this that the United States and Japan recognize or accept that China has special rights or actual influence vis-a-vis Taiwan. [passage omitted]

[Liao] At the present stage, there is no likelihood whatsoever that the United States and Japan will openly move to support change of the status quo.

[Hsu] The status quo is that Taiwan and China share no special tie, unlike the situation between Hong Kong and

China, where there is a special relationship between nonstate and state. So the "two sides, three parties" formulation is utter fantasy. Taiwan has two parties, China one. That is all there is to it! As far as we are concerned, there is no difference whatsoever between Taiwan's ties with China or with the United States or Japan.

[Liao] Is this view the basis for the statement you made the day you were elected that you want to improve ties with the Communist Chinese so much that you would not mind enduring humiliation in the process?

[Hsu] Our premise with respect to enduring humiliation is that we must abide by the DPP's stand for independence. By saying we are willing to endure humiliation, we mean that the DPP may humiliate itself, not that the DPP will humiliate Taiwan.

Our stand is clear. While adhering thereto, we can explain it to Peking so that they understand it. It is not a challenge to fight. What I meant in the humiliation statement was that it would not hurt to go [to China to talk] even if Peking should cold-shoulder the DPP. Furthermore, so long as we stick to our stand, we should take the initiative in communicating with both the Kuomintang [KMT] and the Communists! The goal is not just to make them understand but to explain our stand. If this displeases someone, that is his problem. Such is our view. I believe that the DPP is obligated to dispel the unnecessary tension that exists today and that such issues as face and unneeded misunderstanding should be resolved. Nevertheless, our stand is clear, and we will not drop it just because the KMT opposes it. [passage omitted]

[Liao] Given the officially announced position of the Communist Chinese that they will not hesitate to use force, do you feel your humiliation statement will prevent them from resorting to force?

[Hsu] In point of fact, the Communist Chinese scare only the common folk, not the DPP. China lacks capability to employ force against Taiwan, and the current international political climate prevents her from trying to do so. The Communist Chinese clearly understand this. Moreover, the United States has indicated that the Taiwan issue should be resolved peacefully, and China clearly understands this policy.

[Liao] Well, according to this reasoning, the KMT is clearly the DPP's number-one enemy, for the KMT is Taiwan's ruling party and might maintain friendly relations with the Communist Chinese. Right?

[Hsu] I do not think so. My view is simple, which is that we should no longer treat the KMT as the only party in town. By this I mean that the general trend is clear, that Taiwan is moving toward democracy and that the KMT does not rule alone. Therefore, we stress Taiwan's future development. As history unfolds, the nation issue naturally must be resolved. I do not believe the KMT can arrest this clear historical trend.

In taking into account Taiwan's future development, we view neither the Communist Chinese nor the KMT as

enemies. For Taiwan must build ties with China, so we are even more loath to see old domestic grudges persist in Taiwan. Our aim is Taiwan's future international development, so we must retain open minds. We should let old grudges pass away as much as possible and not allow them to persist.

If, after assuming power, the DPP fails to resolve this issue, what justification will we have for staying in power? All that will have been accomplished is that two parties exchanged seats. We do not wish to see Taiwan reduced to chaos.

Taiwan enjoys tremendous opportunity for development, so great, to put it bluntly, that we can buy the KMT out of power. We can afford to let them keep what they traditionally had and will not begrudge them more, even if the amount bestowed be unreasonable. For Taiwan's future holds boundless hope. What we would like to see is acceleration of elections to complete this community based on common fate. We hope to avoid internal problems during Taiwan's future development. [passage omitted]

[Liao] How should relations with the KMT be handled?

[Hsu] That is not the issue. Bluntly put, we have even greater justification for persecuting the KMT, which will not persecute us again—we do not wish to see this happen. Yet it would benefit the DPP if they did so. For we, the majority, do not fear persecution by a minority. We would just grow stronger the more they persecute us. I hope they will not make this stupid mistake. That would hurt themselves. It would also hinder and leave unnecessary problems for Taiwan's future development.

I believe that historical problems will be resolved quickly but hope that we will not allow conflict to impede Taiwan's development. That development will enable us to avoid fussing about the past, for everyone shares common interest in such development. From this perspective, we bear no enmity toward the KMT, or to China.

The reason I bear no enmity toward China is clear: Taiwan's economic development requires Chinese markets and a cooperative relationship with China. So no matter what China's current attitude is, we must be patient and continue to build relations with her.

[Liao] The DPP's independence plank by no means entails call for change in but rather for recognition of the status quo. Right?

[Hsu] Of course.

[Liao] The KMT's recent publicity campaign paints the DPP as an advocate of changing and the KMT as wanting to maintain the status quo, so as to make the average citizen feel —

[Hsu] That is duplicitous.

[Liao] But is not this inimical to the DPP?

[Hsu] It is obvious that the KMT has launched a war focused around our independence plank. They chose this battlefield and have dispatched all their forces to encircle and harry us. Of course, they cannot withdraw. Their

forces have entered the fray, so all we have to do is to win quick victory and thus will topple the KMT in a single fight.

It is simple. For, frankly put, if the KMT had not waged this war before, it would have been difficult for us to publicize and make people aware of their antics, as nobody cared. Moreover, we never had this opportunity before, so it would have been difficult to crush each of their parties.

Now they claim the DPP's plank has destabilized Taiwan. We can explain this, for it is simple: We are just expressing a conviction, which in actuality is that of the majority. Should we not express it? It will not cease to exist just because their public power suppresses it. You just asked how the conviction of the 4-5 million mainlanders on Taiwan should be handled. Today's instability does not stem from our expression of our conviction but rather from their persecution of our conviction. If people holding different convictions persecute each other, there is sure to be instability.

[Liao] Is the current situation advantageous to the DPP?

[Hsu] This topography and battlefield definitely favor us. The war the KMT initiated has alarmed the entire country, and that certainly helps us.

As to the threat from the Chinese Communists, is the KMT using that threat to divide the country? Or are they uniting the country to confront the threat?

[Liao] Do you believe the KMT is to blame for this?

[Hsu] Naturally. To whom does the KMT government listen? Peking or the people. They cannot make policy as they alone please. That is absurd and dangerous. It is clear that the KMT is exaggerating the threat and using it to advance its own interests. So if this war continues I do not believe they will whip us. Their main force has reached Dien Bien Phu, but the real, decisive battle has yet to begin.

[Liao] Soon you will assume leadership of the DPP. What changes will you make in the way you deal with the KMT? Will you intensify struggle? Or will you follow the model of Secretary General Chiang, private communication?

[Hsu] We must abandon the old mass-protest approach and battle with the KMT. We can now ignore the KMT and work to win the support of the people and society. We should strive to make society believe us and to explain ourselves thereto.

We should work harder to win over the people and not get into interparty scraps. The year-end elections and next year's Legislative Yuan poll are very important to us, and we will even win a big victory in the next presidential election. We must concentrate our forces and attention on next year's election, treat it as a major battle, and devote as little thought as possible to things that are irrelevant to this principal objective.

As for the KMT, we can tolerate them during Taiwan's future development—so long as they do not make mistakes.

Economy Expected To Grow 6.98 Percent in 1992

OW3112092791 Taipei CNA in English 0809 GMT
31 Dec 91

[Text] Taipei, Dec. 31 (CNA)—Taiwan's economy will grow 6.98 percent in 1992, according to a Taiwan Institute for Economic Research (TIER) forecast released Monday.

The institute said the Taiwan economy will remain vibrant if the government manages to maintain measured growth in the domestic money supply and to prevent the further appreciation of the new Taiwan dollar.

According to TIER projections, exports will grow 10.68 percent in 1992 and imports will rise 13.13 percent. Total merchandise trade surplus is estimated to reach 12.83 billion U.S. dollars in the new year.

Industrial Production Expected To Rise in 1992

OW3112092591 Taipei CNA in English 0812 GMT
31 Dec 91

[Text] Taipei, Dec. 31 (CNA)—The value of Taiwan's industrial production is expected to increase 6.8 percent in 1992 despite global economic stagnation. Industrial Development Bureau Director General Yang Shih-chien said Monday.

The implementation of the 1991-96 National Development Plan will contribute to the growth of industrial production, Yang said.

Industrial product exports will reach 73 billion U.S. dollars this year, a 13 percent increase over last year. Southeast Asia and Europe are the main markets for Taiwan products, Yang added.

In order to maintain steady industrial growth, Yang said his bureau will give priority to accelerating the development of new products, promoting industrial automation, upgrading the structures of traditional industries, improving product quality and design, promoting the development of industrial zones, and strengthening coordination among industries.

Economic Planners Anticipate Steady Growth

OW0101100992 Taipei CNA in English 0824 GMT
1 Jan 92

[Text] Taipei, Jan. 1 (CNA)—With an estimated 7.21 percent growth rate for 1991, Taiwan's economy will continue to grow steadily in 1992, according to a forecast by the Council for Economic Planning and Development (CEPD).

The council, forecasting that the country would reach its targeted seven percent economic expansion this year, said "Taiwan is entering the recovery period of a new economic cycle." Other CEPD reports showed that the latest cycle peaked in May 1989 and hit the bottom in August 1990.

K.C. Li, director of the Economic Research Department, CEPD, attributed the booming economy to a sharp jump in domestic demand which was expected to account for

92.74 percent of the gross national product (GNP) in 1991. The rate is the highest since 1982.

"The growth in domestic demand comes largely from a big increase in investment," Li said.

According to figures released by the Directorate General of Budget, Accounting and Statistics (DGBAS), private investments grew 4.66 percent in 1991, compared to a minus 8.06 percent of the previous year, while investments by state-run enterprises and government agencies rose 8.92 percent and 21.57 percent respectively. The government agency also estimates that the growth in private investment will further widen to 9.81 percent in 1992.

The DGBAS cited the six-year National Development Plan initiated in 1991 as the driving force behind the strength in investment.

In the merchandise and service trade, exports for 1991 were estimated to climb 13.04 percent to U.S.\$76 billion, while imports should grow 15.18 percent to U.S.\$63 billion, thus leaving a trade surplus of U.S.\$13 billion. In 1992, the DGBAS predicted, exports would go up 9.44 percent to U.S.\$83.1 billion and imports 12.52 percent to U.S.\$70.9 billion.

Taiwan is enjoying a growing export boom thanks to a substantial jump in indirect trade with Mainland China, the DGBAS said. From January to October last year, exports to Hong Kong soared 46.7 percent to U.S.\$10 billion, for a surplus of U.S.\$8.47 billion. Taiwan's surplus in trade with the British crown colony accounted for about 80 percent of the total surplus, it noted.

In contrast to the official report on economic recovery, a survey conducted recently by the private Taiwan Institute for Economic Research pointed to a stagnant economy rather than one in recovery.

Li blamed the gap between the views of the government and the private sectors on sluggish consumer spending.

Statistics compiled by the DGBAS showed that consumer spending rose only 6.54 percent last year, the lowest rate since 1984, and slower consumer spending resulted in a service sector slump which grew a slight 8.56 percent in 1991, much lower than the annual two-digit growth rate achieved during each of the previous five years.

In a bid to redress economic problems facing the nation, the cabinet plans to hold a national economic conference next March. A preparatory meeting for the conference was held in early December.

Interest on Reserves 'Increasingly Important'

OW2611110891 Taipei CNA in English 0753 GMT
26 Nov 91

[Text] Taipei, Nov. 26 (CNA)— The interest on the country's huge foreign exchange reserves has become an increasingly important part of Taiwan's gross national product (GNP), a high-ranking Council for Economic Planning and Development (CEPD) official reported Monday.

The official, who preferred anonymity, said the interest on foreign exchange reserves is expected to form about 2 percent, or 100 billion NT (new Taiwan) dollars, of the country's GNP this year.

The GNP, the total final value of goods and services produced in a national economy over a particular period of time is the broadest measure of a country's economic health.

Taiwan has accumulated more than \$77.18 billion in foreign exchange reserves as of the end of October, one of the world's largest cash hoards, according to the latest Central Bank of China statistics. The largest part of the assets are deposited in prestigious banks in certain advanced countries or have been used to purchase foreign securities.

The interest on the deposits and securities has become an increasingly important source of the country's wealth, the CEPD official noted.

Poll on Reaction to DPP Independence Plank

92CM0100A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 241, 27 Oct 91 pp 30-33

[Article by Hsu Ching-yun (1776 7230 0061): "They Hope the Kuomintang Will Not Strike Back Too Harshly. A Special Poll by This Journal on Reaction to the Democratic Progressive Party's Adoption of the Taiwan Independence Plank"]

[Excerpts] The Democratic Progressive Party (DPP) [passage omitted] was roundly condemned soon after adopting the call for Taiwan independence.

[passage omitted] What really is the will of the people? What do the people living on Taiwan think of this move by the DPP? What does the average person think of the decision to have the Executive Yuan's Political Party Review Commission convene to discuss punishment, either to dissolve or warn the DPP? What is the attitude of society toward the possibility of judicial bodies, which are aggressively assembling evidence, "arresting people." With the ruling party insisting on stern punishment, do the masses support this uncompromising stand?

To ascertain the public's attitude toward the above issues, this journal drew up a questionnaire entitled "The DPP's Adoption of the Taiwan Independence Plank" and surveyed [passage omitted] the greater Taipei area, which is the fastest and greatest recipient of political and economic news.

The questionnaire totaled seven queries. The results of the survey reveal the following. As to the proposals by the DPP and the Kuomintang's (KMT) subsidiary, the New KMT Alliance, to resolve the controversy through "plebiscite," the seventh question of the survey asked, "Which approach do you favor to resolve the unification-independence controversy?" To this, 36.1 percent of the respondents answered "plebiscite" and 20.4 percent chose "decide through popular will as expressed in

regular elections." We learn, therefore, that a total of 56.5 percent approve of using legitimate, electoral means to resolve the controversy.

Therefore, the view of nearly 60 percent of our survey respondents clearly coincides with that of the DPP and the New State Alliance. The ruling party should pay greater attention to the view of these nearly 60 percent. Furthermore, only 17 percent of all respondents favored "uncompromising and full opposition to Taiwan independence" and thus, by contrast, comprise an absolute minority. The ruling party, which has adopted an uncompromising stand on the issue, ought not ignore these data. For the data may reasonably be interpreted to read that less than 20 percent support "the ruling party's uncompromising and complete opposition to Taiwan independence."

[passage omitted] Indeed, the response to question seven was the most unusual in the entire survey, and the wide disparity between the 17 percent favoring "uncompromising and full opposition to Taiwan independence" and the 56.5 percent supporting "regular elections" or "plebiscite" is surely indicative of popular sentiment. Leaving aside for the moment the issue of whether or not people favor voting to decide the issue, we can at least say that "uncompromising and full opposition to independence" is a minority view.

Of course, in addition to the unusual response to question seven, responses to the other six questions in the survey also merit examination.

After the DPP adopted its plank 13 October, the media devoted considerable space to the incident; the ruling party convened small and large meetings several days in a row to carefully discuss response thereto; the DPP issued repeated rejoinders through speeches and statements; and time and again the government announced that it would "handle the matter in accordance with the law." In addition to the outcry that arose within Taiwan, even the Communist Chinese, Hong Kong, and people involved in the overseas democratic movement issued one statement after another. Suddenly, calls for suppression became incessant.

To question one, "Do you believe the current political climate is tense," 65.8 percent of all respondents answered "very tense" or "somewhat tense." Obviously, the issues arising from the DPP's adoption of the independence plank not only have attracted the attention of the vast majority of people but have also engendered tension. Only 24.6 percent of all respondents believed "there is no tension whatsoever."

In the next few days, the Political Party Review Commission will convene to discuss whether to dissolve or warn the DPP. Question two of the survey, therefore, was designed in response to this: "Do you favor dissolving the DPP for adopting the Taiwan independence plank?" Respondents answering "very much approve" or "approve" totaled 38.8 percent, while those choosing "greatly disapprove" or "disapprove" numbered 31.6 percent.

Therefore, the general figures for "approve" and "disapprove" are about even. "Approve" exceeds "disapprove" by only 7.2 percent, a difference that, in terms of ratio, is quite close and insufficient to conclude that the majority advocates dissolving the DPP. For the 38.8 percent "approval" response is inconsistent with popular opinion as reflected in the media. The difference between "approval" and "disapproval" is merely relative plurality, not absolute majority.

[passage omitted] However, dissolution of a political party is a very serious matter, differs greatly from normal decision-making, and relates to constitutional order. Thus if one claims that a mere seven-plus point approval margin means that most people favor dissolving the DPP, one has sown confusion to the objectivity of statistical data. This warrants ruling-party ponder and suggests that, even though some people do not approve of the independence plank, they by no means support dissolution of the DPP.

Question three was "Do you believe dissolution of the DPP will help resolve or will exacerbate the unification-independence controversy?" The "greatly help resolve" and "somewhat help resolve" responses totaled 30.8 percent, and those of "somewhat exacerbate" and "severely exacerbate" numbered 21 percent. Analysis of these two general responses reveals that 30 percent believe that dissolution of the DPP will help resolve the controversy and 20 percent think that it will make matters worse. However, another 20 percent answered "would have no effect," which is also negative in nature, namely, that "the issue would persist after DPP dissolution." Therefore, overall, respondents choosing "exacerbate" or "would have no effect" totaled 40 percent. This means that the majority of respondents does not believe that DPP dissolution will truly resolve the controversy. Especially when disposal of the incident is not just a matter of whether or not to treat the issue in accordance with the law.

[passage omitted] Question four queried, "Do you believe the principals involved in this incident should be arrested?" To this, 34.3 percent answered "yes," 35.8 "no." There is some conflict between response to this question and that to question two. To the former, a plurality approved of dissolving the DPP, whereas in the latter advocates of arresting the principals were a minority.

We may interpret this 1.5-point margin opposing arrest of the principals on two levels. First, the margin suggests that respondents see the issue as political, not judicial. Second, when addressing the serious issue of dissolving the DPP, nearly 40 percent approve, yet the percentage approving arrest of the principals is less than that disapproving. This indicates that respondents relatively disapprove of the behavior and stand of the DPP, suggesting that the DPP needs to step up effort to win popular support. Yet while respondents may disapprove of the DPP, there is no strong sentiment for "getting rid of the rascals."

Question five asked, "Do you believe arrest of the principals will help resolve or will exacerbate the unification-independence controversy?" To which 28 percent answered "resolve," 25 "exacerbate," and 17 "no effect." Analysis of this question yields the same conclusion as that to question three. However, it is worth noting that, when respondents face questions like two and four, preference to put issues to a vote, they can vent either reason or emotion. Confronted with questions like three and five, in which they must evaluate whether their favored policies will resolve the issue at hand, they can only respond rationally. Thus while about 30 percent approve or disapprove of dissolving the DPP or of arresting its principals, approximately 20 percent believe that such moves will "have no effect" and nearly 30 percent "do not know."

Question six was "Are you worried about Taiwan's future democracy as a result of this incident?" "Yes" garnered 55.4 percent of the responses. If party politics were democratic, society would have a clear concept of the road to democracy and, of course, there would be less worry. The 55.4-percent "yes" response, however, suggests that the actions of both the ruling party and of the DPP bewilder people. This is the bane of Taiwan, which claims to be democratic.

Questions one and six of the questionnaire are emotional and received "do not know" responses of 8.8 and 15.2 percent. Yet in questions two, three, four, and five, which required respondents to indicate their attitudes, "do not know" was high, 25.8, 25.3, 25.4, and 26.7 percent, respectively. There are two reasons for this high response. First, the average person has never been willing to express a direct opinion on political issues. Second, the unification-independence controversy has not been fully discussed, and information is limited. Thus most people are confused about the issue and find it difficult, when asked, to express themselves.

As to the habits of most respondents, most answered "do not know" when confronted with issues they were unwilling to answer or were uncertain of. Yet from another perspective, when political issues were involved, the answers provided mixed reason and emotion. For example, in question two 38.8 percent approved of dissolving the DPP, yet after further reflection only 24.2 percent believed, in answer to question three, that dissolution would help resolve the unification-independence controversy. If it can be said that dissolution will not change things, then the ruling party should carefully consider this weighty decision, which involves constitutional order, and should not act rashly.

[Box, p 32]

The Unification-Independence Controversy Educates the Shadow of Provincial Origin

Provincial origin has always been asserted to be a major factor in the ideological issue of unification versus independence. Is that assertion true? Our survey suggests it is.

By place of origin, our data reveal

1. As opposed to 78.8 percent of non-Taiwanese, 62.3 percent of Taiwanese respondents viewed Taiwan's political atmosphere as tense.
2. Sixty percent of non-Taiwanese, versus 33.6 percent of Taiwanese respondents approved of DPP dissolution.
3. Only 27.7 percent of Taiwanese believed that DPP dissolution would help matters, while as much as 43.4 percent of non-Taiwanese felt it would.
4. Only 30.5 percent of Taiwanese approved arresting the principals, versus 50.5 percent of non-Taiwanese.
5. Only 24.7 percent of Taiwanese felt that arresting the principals would help resolve the controversy, versus 42.4 percent of non-Taiwanese.
6. Fifty-three percent of Taiwanese expressed worry about democracy in Taiwan, versus 64.6 percent of non-Taiwanese.
7. Fifteen percent of Taiwanese supported uncompromising and complete opposition to Taiwan independence, as opposed to 25 percent of non-Taiwanese.

These seven sets of data indicate that non-Taiwanese are much more sensitive to the controversy than are Taiwanese. Yet, to change the perspective, the facts that non-Taiwanese are more worried and apt to support arrest and dissolution of the DPP indicate not only dissatisfaction with the DPP but also with the KMT. For why would non-Taiwanese be full of fear regarding KMT rule if the KMT occupied the position it once did. [end box]

Further Appreciation of NT Dollar Discouraged

92CE0221B Taipei CHING-CHI JIH-PAO in Chinese
16 Nov 91 p 2

[Editorial: "New Taiwan Dollars Should Not Be Revalued Upward"]

[Text] During the past several days, the new Taiwan [NT] dollar has continued to appreciate once again under urging from David Mulford, United States assistant secretary of the treasury, thereby impairing the trend toward a revival of the boom that was underway. Unless checked, this situation is bound to be detrimental to future economic growth.

As to whether a revival of the domestic boom is under way, views have differed since the fourth quarter of 1990. First was the view of the Economic Construction Committee, a unit set up specifically to survey the boom. It announced that on the basis of the boom indicators it had published, the domestic boom has bottomed out and a revival is on the way. However, the reaction of professionals is that there is no sense of a revival of the boom at all. Even most recently, when the Economic Construction Association published its September prosperity indicators its signal of economic improvement—a change from an amber light signifying no rise in prosperity in June to a green light signifying normal prosperity—has remained green for four months. Furthermore, the overall grade increased from a 24 in June to 28 in September, showing continued steady growth of the

domestic economy. So far, all of the Economic Construction Association's leading indicators have shown a rise over the previous month for the past seven months, with the exception of February and July when setbacks occurred, showing a continued expansion of prosperity during the coming months. Nonetheless, according to a business firm operations survey of the Taiwan Economic Research Institute, which also set up a special survey team on the boom, the possibility of a short temporary decline in economic prosperity also exists. Its views on future prosperity are not as assured as those of the Economic Construction Association. However, civilian professionals still have no sense of a revival of prosperity. The survey that the Republic of China Industrial and Commercial Construction Research Association commissioned SHANG-YEH CHOU-KAN [COMMERCIAL WEEKLY] to do is an example. Despite the small number of samples, this provided a true reaction from the professionals. Surprisingly two-thirds of the 159 entrepreneurs surveyed did not believe or absolutely did not believe that the domestic economic boom has begun to revive. Fifty-seven percent of them were also not optimistic or were pessimistic about the next five years. Only 34.6 percent were optimistic.

Generally speaking, during the initial stage in the revival of a boom, particularly when the pace of revival is not proceeding quickly, various different reactions and views are normal. The signals of economic improvement and the leading indicators that the Economic Construction Association published are nationwide, overall judgments based on available data and objective standards, so naturally they cannot reflect differences among different regions and different industries. However, the business firm operations survey that the Taiwan Economic Research Institute prepared, and the questionnaire survey that SHANG-YEH CHOU-KAN sent to vigorous business leaders were aimed at specific individual firms or entrepreneurs. Not only were most judgments subjective, but differences existed among enterprises about whether there was a complete revival of prosperity. Even within the same industry, results may differ as a result of good or bad management, and investment priorities. Even the boom indicators that the Economic Construction Association published contained operations surveys of firms in addition to the prosperity improvement signals and the leading prosperity indicators. Take the September judgment about the prosperity of manufacturing industry businesses, for example, in which fewer than 20 percent believed the economy had turned for the better, and more than 30 percent felt it had taken a turn for the worse. Meanwhile, most professionals believed it had taken a turn for the worse, only a small number believing it had taken a turn for the better. In addition, more than 70 percent of department stores surveyed in September believed the economy had taken a downturn, none believed it had taken a turn for the better, while 40 percent of the trading industry felt it had taken a turn for the better. On the outlook for the following 3 months, the number believing improvement would occur declined from 25 percent in June to 19 percent in September. Those

believing the economy would get worse rose, however, from 10 to 15 percent, demonstrating a difference among different industries, but also much pessimism and little optimism.

Although there are overall and individual differences in views and predictions, and both optimism and pessimism about prosperity at the present time; nevertheless, in reality, only domestic factors and external factors affect the revival of domestic prosperity. Domestically, as a result of the frequent political fights in recent years, civilian investment aspirations have gone unrealized. According to central bank published data, fixed deposits increased tremendously during the third quarter of 1991 showing that civilian desire for investment and consumption is not strong. On the other hand, although the government vigorously promoted the six-year National Development Plan, and although the first year is almost gone, the estimate that the Directorate General of Budget, Accounting and Statistics of the Executive Yuan published shows that during 1991 publicly owned enterprises investment increased only 5.8 percent, an amount lower than the 6.97 percent economic growth rate. In addition, the fiscal deficit has steadily increased during the past two years, limiting an increase in government consumption. Therefore, the domestic increase needed depends solely on a tremendous increase in government investment, and its contribution to economic growth must be limited.

Externally, trade plays an important role in Taiwan's economy, and trade is affected by changes in the international economy. Although international economic organizations forecast during the year that the international economic situation would take a turn for the better during the last half of the year, this did not occur in fact. America's economy did not revive very greatly, and it may very well slide into recession once again. Japan's and Germany's circumstances are also going from bad to worse. The East European countries still show negative growth. Recently published economic forecasts by international agencies for 1991 and 1992 have all been adjusted downward, all of which have a detrimental effect on Taiwan.

Analysis of the domestic and foreign economic situation shows that clearly there is no impetus for a rapid revival of domestic prosperity. During 1991, in particular, the currencies of most industrial nations have been devalued against the United States dollar, but the new Taiwan dollar has increased 4.7 percent in value against the United States dollar, and during 1991, it has appreciated between 14 and 18 percent against major European currencies for a detrimental effect on Taiwan. For example, during the 40 days from the beginning of the fourth quarter until 9 November, exports increased only 6.3 percent over the same period in 1990. By comparison with the 14 percent increase during the first 3 quarters of 1991, exports declined more than one-half. Furthermore, the favorable balance of trade for 1991 up to 9 November was only \$11.1 billion, a \$200 million drop from the same period in 1990. Clearly, the United States Treasury Department's condemnation of Taiwan for

increasing its total favorable balance of trade is no longer a fact. The tremendous appreciation of the new Taiwan dollar during the past five years has caused a rise in Taiwan's per unit labor costs figured in American dollar terms. This has weakened the competitiveness of Taiwan's exports in comparison with other major countries, and has had an extremely great impact on Taiwan's economy. Conditions do not exist for another rise in the value of the new Taiwan dollar. We hope that the authorities will face this issue squarely, not only taking effective actions to check the influx of hot money, but to eradicate the psychology that hopes for an appreciation of the new Taiwan dollar. If it does not, our delayed economic recovery will be dealt a serious blow.

Paper Discusses Public Debt Situation

92CE0221A Taipei LIEN HO PAO (in Chinese)
20 Nov 91 p 2

[Editorial: "A Positive Look at Bond Issuance"]

[Text] On 19 November, the Ministry of Finance successfully auctioned NT\$ [new Taiwan dollar] 24.5 billion worth of five-year central government bonds as a prelude to the government's enlarged issuance of bonds to pay for government construction. Minister of Finance Wang Chien-hsuan [3769 1696 3551] said that financing the government's general and special budget will require issuance of NT\$448.9 billion worth of bonds in 1992. Thus, in 1992, government reliance on the issuance of bonds to finance its total expenditures will increase to 34.72 percent. This means that NT\$34.72 of every NT\$100 the central government pays in 1993 will be a loan derived from the issuance of bonds. This will be more than America's all-time record, and it will overtake Japan's historical record of 34.7 percent reached in 1979. Finance Minister Wang said that this situation shows substantial government reliance on bonds to a substantial extent to meet its obligations.

During the past two years and for many years to come, the rapid growth of government expenditures, the steady deficit increase, the ratcheting upward of bond issuances, and the governments balance of payments difficulties have worried ministers in charge of government fiscal matters, which is understandable. However, we believe that so long as the economy can continue to grow, the issuance of bonds to take care of government expenditures is simply normal good money management. Our concerns are about the following: 1) Are the uses to which income from bonds is put beneficial to the citizenry as a whole; 2) does the issuance of bonds create hardships for the sources of revenue; might not a serious jostling effect result in financial markets, and 3) does the cumulative debt exceed our ability to carry it? An analysis of China's circumstances in these three regards in comparison with the United States and Japan is provided below.

First, let us discuss the uses to which revenues that are derived from the issuance of bonds are put. Virtually all of the revenues that the United States derives from the issuance of bonds is used for ordinary expenses, and it

has to depend on ordinary revenue to make repayment. However, the burden of the year-after-year fiscal deficits has become increasingly heavy. Approximately half of the revenues that Japan obtains from the issuance of bonds is used for investment in construction, the other half being used to make up ordinary account deficits. At least a half is repaid out of returns on investment; thus, the problems are not as severe as for the United States. In Taiwan, however, the budget law provides that government's ordinary receipts and expenditures must be kept in balance; capital revenues may not be used for ordinary expenditures. This means that for government ordinary accounts, expenditures must be kept within the limits of income. A deficit is not allowed. Therefore, revenues obtained from the issuance of bonds are used entirely to pay for investment in construction, and the various construction projects that government is currently conducting are for the purpose of making up for past construction shortfalls and are for the common enjoyment of all the people. They are not only necessary, but for an overwhelming majority of them self-repaying sources of revenues are available. Even if some do not have self-repaying sources of income and thus require investment, although the debt burden from the issuance of bonds increases, once the public construction has been completed, assets will also increase. Therefore, on the government balance sheet, assets and liabilities are in balance. This is an entirely different situation than in the United States and Japan where all or half of revenues raised through the issuance of bonds is used for ordinary expenditures of a consumption nature. There are no assets or only partial assets to offset the liabilities. What is more, the continuous completion of public construction that Taiwan is now conducting and will continue to promote in the future will expand the size of the economy and build national strength, laying a foundation for sustained future economic growth, as well as broadening the tax base. If government financial authorities handle matters well, after getting through the peak period of investment in public construction, government's fiscal receipts and expenditures should improve by themselves.

Second, let us address the financial sources from which funds are raised through the issuance of bonds. For many years, the United States has been unable to pay for investment out of savings. It has insufficient financial resources. Consequently, government has issued large amounts of bonds that compete in financial markets with civilian enterprises for scarce funds causing a serious jostling for capital. In Japan, however, savings are larger than investment. Every year a huge savings surplus occurs; therefore, when the Japanese government issues large amounts of bonds, they have no effect on civilian money raising efforts. No jostling occurs, and for many years Japan has had the lowest interest rates in the world. Taiwan and Japan are similar in that savings have far exceeded investment during the past decade, and a huge savings surplus exists. Until the government adopted stringent credit restrictions in March 1989, Taiwan also had some of the lowest interest rates in the world. Despite the large increase in the issuance of government

bonds during the past two years, thanks to excess savings amounting to more than NT\$300 billion annually, no jostling in financial markets has occurred.

Third is the issue of whether cumulative government debt exceeds our ability to bear it. Finance Minister Wang said that bond issuances during 1993 will come to 34.72 percent of total expenditures, catching up with the 34.7 percent of Japan during the all-time high year of 1979. However, the most recent data from the Japanese Ministry of Finance shows Japanese bond issuances during 1979 as having been 39.6 percent of total expenditures, so Taiwan's issuance is still lower than Japan's. Moreover, this only applies to bond issuances for the year as a percentage of expenditures for the same year. If it occurs for only a small number of years and is not a high percentage maintained over a long period of time, there is no problem. Thus, the comparison of two different indicators may be used to understand ability to bear bond issuance. One is the cumulative outstanding balance of unredeemed bonds as a percentage of total government expenditures. The other is the outstanding balance of unredeemed bonds as a percentage of gross GNP. The first is used to judge the extent to which government can carry public debt; and the second is used to judge the extent to which the country as a whole can bear public debt. As of the end of June 1991, the central government had an outstanding government bond balance totaling NT\$203.5 billion yuan, or 25 percent of total central government expenditures for 1991. This contrasted with the 186 percent for the United States in 1989 and the 265 percent for Japan in 1991, making it far lower than the total burden of the two countries. In June 1991, Taiwan's government bond balance outstanding amounted to only 3.5 percent of gross GNP, only one-tenth that of the more than 40 percent for the United States and Japan. Analysis of data contained in the 1990 government financial and monetary annual report for all countries of the world shows that not only is the Taiwan Government's and the people's public debt

burden far lighter than in the United States and Japan, but also far lower than for an overwhelming majority of medium and high income countries in the world. Clearly, there is still substantial room for Taiwan to issue bonds.

The foregoing analysis shows that Taiwan's outstanding government bond balance is negligible. Even when the bonds that will have to be issued during 1991 and 1992 are figured in, the government's and the people's public debt burden is still less than half that of the United States and Japan. It does not constitute a serious problem. What is more, all of Taiwan's bond issuances are used for investment in construction, so even if some nonrepaying bonds are issued, assets are there. The people's burden is not increased. Moreover, once the peak period of investment to remedy the previous construction investment shortfall is over, the economic expansion will mean that the public debt burden percentage should decline automatically.

Nevertheless, there is no denying that Taiwan's fiscal situation is not entirely without problems, and the problems are not a large scale increase in investment in construction, but in the overly rapid inflation of ordinary expenditures. The rate of increase in ordinary revenues still lags far behind the rate of increase in ordinary expenditures. As a result, the large annual excess of ordinary revenues of past years, which served as a major source of revenue for investment in public construction, scarcely exists at all today. Henceforth, financial resources for investment in public construction will have to come almost entirely from the issuance of bonds. Therefore, in examining ordinary account receipts and expenditures, how to restrain the overly rapid inflation of ordinary accounts and improve the rate of growth of ordinary revenues must be an important current government financial issue. In addition, acceleration of the conversion of publicly-owned enterprises to civilian ownership, doing all possible to open up public construction to permit civilian investment and participation is also an important way in which to reduce government's bond burden that must be earnestly implemented.

Nonconfrontational Political Culture Discussed

92CM0101A Hong Kong KAI FANG [OPEN
MAGAZINE] in Chinese No 59, 16 Nov 91 pp 50-51

[Article by reporter Lin Ziming (0407 1311 2494):
"Hong Kong Has No Radicalism"]

[Excerpts] CHUNG-KUO SHIH-PAO deputy senior editor-in-chief Hu Hongren [5170 7703 0088] had made a reservation for dinner and Taiwan political commentator Nan Fangshuo [0589 2455 2592] also sat down. After eating they both strolled along the Wanchai waterfront, chatting about the Taiwan legislature's "fighting culture," when Nan Fangshuo stated definitively: "Mark my words, in two or three years the spectacle of fighting is bound to emerge in Hong Kong's Legislative Council [Legco]. In the past Hong Kong had no legislature, now it has one, and in all legislatures, in the beginning stage there will always be fighting. Germany and Japan both went through this experience."

Many people would agree with this, remembering that last year business circles made a set of video tapes, spreading the "democracy is pernicious theory," believing that if the door of democracy was opened slightly, like the story in Greek mythology of opening Pandora's box, everything would become chaotic, and evil would be fully unleashed, leaving harm in its way. The videos put special emphasis on two shots. One showed full blown fighting in Taiwan's Legislative Yuan, in which it was only possible to see the members engaging in fisticuffs, with legs and arms flying everywhere; in the other South Korean students were hurling "Molotov cocktails," making the streets turn red with fire. The lesson everyone is to draw from these two stories is that democracy is not a sacred thing, rather it is a potentially explosive competition.

Following the September direct elections, 16 democratic group candidates entered the Legislative Council, planning to go along peacefully, and the worry of business and industrial circles that they would be meddlesome has not yet occurred. Still, is it possible that Nan Fangshuo's prediction will come true?

That day I said to Nan Fangshuo: No. First, Hong Kong does not have a confrontational political culture; second, the democratic groups in fact are not radical. Hong Kong still does not have the soil for the development of radicalism; and third, they also do not have clear and unshakable political convictions beyond a fanaticism which believes in marching forward bravely. The total constitution of this group is one that can be described as expedient, and it carries a distinctly utilitarian flavor. I have often said that extreme antagonism emerges in a society for four reasons: racial, religious, class and historically generated hatreds. [passage omitted]

The internal conflict on Taiwan stems from historically caused hatreds, as several decades ago the Kuomintang [KMT] came and ran roughshod over the Taiwanese people, and time has not yet been able to fully wash away feelings of resentment. Now the KMT has given up some of its political power, steadily yielding its influence, and

the opposition party is gradually pushing forward, bringing with it a fair amount of vindictiveness. The fights are for the electorate to see, if they don't cuff and beat up their opponents, they won't win over people, because many people shout and cheer when they see KMT people being beaten up.

In Hong Kong, the factors causing these types of conflict are very weak. There is no need to mention religion, and as for the racial aspect, Hong Kong people came here to escape hardship, having rarely known a peaceful and happy place. How can they harbor hatred towards the British? In addition, the British early on understood that by having Chinese rule Chinese, and thus having a buffer between British officials and the common people, there could be no direct conflict. When it comes to class conflict, everyone came here only seeking to make a living, and with the mainland's socialist myth destroyed, Hong Kong people have been clearer than most when it comes to the leftwing conviction of the proletariat seizing power, which early on had no market in Hong Kong. For this reason, Hong Kong also does not have any historically based inveterate hatreds.

The democratic groups have grown on this type of soil, they in fact are not the terrifying radical groups envisioned by industrial and commercial circles, and their innermost thoughts are in reality very moderate. For example, during the election not one person acknowledged being a socialist, at most there were those social worker type humanitarians who want more material benefits and less fees to even things up a little. Yet these were not people who believe in equality-seeking Fabianism.

On the contrary, they have encountered more radical opponents, for example, with the Trotskyite Chen Changhe [7115 2490 0735] and Liang Yaozhong [2733 5069 1813], who claims to represent workers, it is possible to use these "radical" political programs as targets to attack. In terms of social policies, the democratic groups are very flexible, and easily converted, as long as they allow the electorate to know what things they are really fighting for, and can accept quitting.

The reason it is this way is because they all do not have a set of firm convictions. Their so-called belief in democracy is only a very empty concept, and can hardly be compared with the "conviction" held by DPP concerning independence, which they are willing to die for.

In the final analysis, their only demand is to play the part of the ascendant middle class on the political stage, as long as they can "play the game," they can "act" on the stage of opportunity, and be contented. I recently told a friend that opening the Legco and letting them in will not only create confusion, but will also be a stabilizing factor, which will contribute to social stability. This because after they have been taken in, they cannot then create trouble outside the organizational system, but must comply with the rules of the game. If the path of political participation is everywhere blocked, they would want to play but not be allowed, and then they could change their attitude, detesting the world and its way, turning towards radicalism, and being forced to become radical elements.

Therefore, I do not believe that the Legco will become a martial arts arena, because they will not act in this way, and the electorate also does not expect them to act this way. The political culture of Hong Kong is nonconfrontational, and is also a moderate one, advocating order, not accepting behavior exceeding the bounds. If a politician beats someone in the Legco this would be political suicide, he would not succeed and he would not be able to become a martyr.

At present the greatest antagonistic factors are relations between China and Hong Kong. On the one hand there is the Chinese Communist Party, while on the other are the democratic groups, which dared to "oppose China" and were chosen by the electorate. This antagonism can be said to have been created following 4 June, and after 4 June it was the intense feelings of defiance towards Beijing generated by the people that has propelled the democratic groups onto the stage.

Hence they cannot retreat, and though in the bottom of their hearts they "oppose China," in fact their behavior has been softened. Their desire to reach a compromise is also an impossible task, because the Chinese side remains hostile, still brandishing a club to strike them down. With the enemy still on the offensive, how can we make concessions? This situation has a sense of desperation to it.

There are still the people who lost the election because of their closeness to China, who will simply pull back the veil, fully showing themselves to be in the pro-Chinese camp, and bringing a vindictive mentality in their attacks on the democratic groups, increasing the smell of gunpowder on the political scene.

The democratic groups are intrinsically fractious and variable, and they do not advocate or are they skilled at fighting. The Chinese side obstinately wishes to do battle with them, which only goes to show that the basic confrontational nature of the CPC has not changed.

'Roundup' Views Sci-Tech Ties With Hong Kong

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["Roundup" by XINHUA reporter Duanmu Laidi (4551 2606 0171 1229): "Broad Prospects for Hong Kong-Mainland Cooperation in Science and Technology"]

[Text] Hong Kong, 26 Nov (XINHUA)—A large delegation from the Chinese Manufacturers' Association of Hong Kong returned here from a visit to Beijing recently. Liang Qinrong [name as received], chief delegate and association president, said: "The association is willing to serve as a bridge that will promote information exchanges, personnel training, and joint research in science and technology between Hong Kong and the mainland."

Scientific and technological cooperation between Hong Kong and the mainland has grown in recent years, and it is still expanding.

Reporters have learned from relevant departments that people from all walks of life in the mainland have made

an average of 2,000 or more visits to Hong Kong each year to conduct scientific and technological cooperation and exchanges. Meanwhile, there has been a constant stream of mainland-bound visitors from Hong Kong's industrial, commercial, scientific, and technological circles for inspection and general-purpose trips. New products jointly developed by mainland-based scientific and technological personnel and Hong Kong companies have exceeded 200 annually.

People in Hong Kong's industrial, commercial, scientific, and technological circles generally believe that scientific and technological exchanges and cooperation between the two sides are mutually supplementary and beneficial. They believe that such exchanges and cooperation have fueled Hong Kong's industrial transformation and upgrading, generated remarkable economic returns, and played a positive role in promoting Hong Kong's stability, prosperity, and development.

The direct application of mainland-developed scientific and technological achievements by Hong Kong's small and medium-scale enterprises has sharpened the competitive edge of some products. A plastic electroplating plant in Hong Kong bought a "copper pyrophosphate recovery processing" system and a "hexavalent chrome recovery" system from Tianjin's Nankai University through the Beijing-Hong Kong Academic Exchange Center. It also received a gift—a "nickel sulfate recovery processing" system—from the university. The three sets of equipment have produced remarkable economic returns since they went into operation more than a year ago. Hong Kong's Wanbao Industrial Company [name as received] has applied mainland-developed "cyanide-free brush gold-plating" technologies to the production of light industrial products and jewelry, thereby completely replacing traditional gilding techniques. Some of those technologies have even replaced gold-leafing and gold-plating techniques. This has helped eliminate pollution by cyanide and mercury, resulting in significant economic returns. It is understood that mainland-developed scientific and technological achievements brought to Hong Kong through the Beijing-Hong Kong Academic Exchange Center have played an important role in the technical transformation of Hong Kong's small and medium-scale enterprises and in product development. Those achievements include technological products for environmental protection, medical instruments, medicine, food, computer software, laser technology and products, and electronics.

The two sides have also cooperated in developing new products and in converting scientific and technological achievements into commodities in a timely fashion. Following their cooperation in developing ion exchange techniques and equipment for processing and recovering heavy metals waste water, the Hong Kong Productivity Council and Nankai University have jointly invested in building a resin regeneration service center to provide services to small and medium-scale factories in regenerating resin and recovering heavy metals through ion exchangers. This has improved the quality of factory effluents and greatly reduced the cost of production.

To make the most of supplementary advantages, both sides have made joint investments to run scientific and technological enterprises both in Hong Kong and the mainland. Each year, more than 20,000 major scientific and technological achievements and over 10,000 patents are registered in the mainland, which in turn becomes a solid technical foundation for Hong Kong. Meanwhile, with its abundant information resources and convenient business channels, Hong Kong provides market orientation for scientific and technological development in the mainland. In three short years, the Lianxiang Computer Company Limited in Hong Kong, jointly established by the Chinese Academy of Sciences, the China (Hong Kong) Technical Know-How Transfer Company, and the Hong Kong Daoyuan Company, has developed advanced microcomputers and introduced them in the international market. A total of 14 kinds of main-frame computers it produces are sold to 34 countries and regions in Europe, the United States, and Southeast Asia. Its annual business is expected to reach 780 million Hong Kong dollars this year, becoming one of the most profitable joint-venture companies. The Xinxin Software Company, a Shenzhen-base joint-venture enterprise run by Sichuan's Xinchao Computer Company and Hong Kong's CIM company, has received orders of more than \$1 million, mainly from Hong Kong and the United States. The first phase of the construction of the Shouhua Science Park in Huizhou has been basically completed. Invested by Beijing, Guangdong, and Hong Kong, it will turn out to be China's largest base for developing and producing computers, giving full play to the advantages of science and technology as well as personnel in the mainland, at upgrading the investment structure in the mainland by Hong Kong's businessmen, and at bringing about changes in Hong Kong's industrial structure.

Increasing attention has been paid to academic research cooperation. The University of Hong Kong has invited experts from the mainland to conduct such joint research projects as "long-term development projects with computer networks," "genetic engineering," and "researching transportation networks." The Chinese University of Hong Kong has invited experts from the mainland to participate in such joint research projects as "appraising

traditional Chinese medicines and Hong Kong's medicinal plants" and "bioengineering." The research projects jointly conducted by experts from the mainland and the Hong Kong Polytechnic and the Hong Kong Baptist College include "the numerical stimulation of tidal waves under the influence of severe cold air from the South Sea," "experiments with heat transfer between buildings" and "optical pickoffs." It has been learned that the Chinese University of Hong Kong alone have invited more than 340 mainland experts to participate in joint research projects.

The key to help upgrade Hong Kong's industry, already faced with even more severe competition and challenges, lies in scientific and technological cooperation between Hong Kong and the mainland. Personages of industrial and commercial circles hold that it is unavoidable for Hong Kong to transfer its labor-intensive industry to technology-intensive ones because its industries, mainly export-oriented light industry, have suffered from labor shortages, rising costs, and international protectionism. Moreover, with increasing development of science and technology on the mainland, businessmen in Hong Kong can take advantage of the mainland's scientific and technological personnel and their achievements to accelerate technical renovation and upgrading in Hong Kong. At the same time, this will help promote the export-oriented economy in the mainland.

Universal concern is given to future cooperation in the field of science and technology between Hong Kong and the mainland. The Trade Department of Hong Kong said that it has decided to hold exhibits of scientific and technological achievements on the mainland and relevant seminars in Hong Kong every year. This will give an opportunity to the businessmen in Hong Kong and overseas to have a timely understanding of the mainland's scientific and technological achievements and speed up the process of turning these achievements into commercial production. Meanwhile, it also provides an opportunity for the mainland to understand market situation overseas so as to integrate scientific and technological research with the market. Indeed, there are great prospects for scientific and technological cooperation between Hong Kong and the mainland.

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